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*The* SOUTHERN ECONOMIC JOURNAL

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# RUSKIN AND THE ORTHODOX POLITICAL ECONOMISTS

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John Ruskin (1819–1900) is accorded scant respect by students of economic theory. Though he is taken up briefly in some "Principles" and histories and is mentioned in passing in seminars, it is merely to clear away irrelevancies before getting down to serious business. Students of Ruskin might well be dissatisfied with the vagueness of the professional treatment of this great literary man who spent a large part of his life tilting with the English orthodox political economists of his day. Such treatment is, of course, not surprising; better-informed modern amateurs have been more summarily dismissed. However, a detailed presentation of the case of Ruskin versus the orthodox political economists should enable us to get a more nearly adequate idea of Ruskin's critical position, its significance in economic history and in the history of economic theory.

The first part of this study is an examination of Ruskin's indictment of political economy. The second part is a brief consideration of the methodology of some typical orthodox political economists[1] as a background for an explanation of Ruskin's defection.

## I

Ruskin's criticism falls into three closely connected divisions: (1) political economy is scornful of religion and Christian morality; (2) it professes to be a science of human relations, and yet it abstracts from man all human characteristics and leaves only brutish ones; (3) even on its own basis, that of a commercial science, orthodox political economy is a false science.

At the time (1860) when, it is conventional to suppose, Ruskin turned from art to political economy, we find him recording what he considered the irreligion and immorality of economic writers:

> "As no laws but those of the Devil are practicable in the world, so no impulses but those of the brute" (says the modern political economist) "are appealable to in the world. Faith, generosity, honesty, zeal, and self-sacrifice are poetical phrases. None of these

[1] Here and elsewhere in this paper the name "orthodox political economists" is used to indicate those nineteenth-century economists variously called "orthodox", "liberal", "classical", "individualist", or "English". According to John Neville Keynes (*Scope and Method of Political Economy*, fourth edition, London: Macmillan and Co., 1930, pp. 11-12), Senior, J. S. Mill, Cairnes, and Bagehot best represent the point of view of that school.

things can, in reality, be counted upon; there is no truth in man which can be used as a moving or productive power."[2]

So he states in *Modern Painters*, and two years later, in a letter to his friend Dr. John Brown, he says:

> The Science of Political Economy *is* a Lie,—wholly and to the very root (as hitherto taught). . . . To this "science," and to this alone (the professed and organized pursuit of Money) is owing *All* the evil of modern days.[3]

In making such comments Ruskin is arguing from a proposition which, if admitted, may warrant the conclusion he draws. And he does not hesitate to state that proposition:

> You have founded an entire Science of Political Economy, on what you have stated to be the constant instinct of man—the desire to defraud his neighbor.[4]

Political economy is a delusion which is, he says, "based on the idea that an advantageous code of social action may be determined irrespectively of the influence of social affections."[5] One of the chief charges is that it arrogates a name which is misleading and immoral.[6] Ruskin states that real political economy consists in the study of "the production, preservation, and distribution, at fittest time and place, of useful or pleasurable things."[7] Since the qualities of usefulness or pleasurableness depend upon human capacity to use and enjoy, political economy "must be a science respecting human capacities and dispositions." But, he continues, "moral considerations have nothing to do with political economy (III. i. 2). Therefore, moral considerations have nothing to do with human capacities and dispositions."[8]

Not only does political economy leave out of account the social affections, but it treats society as an aggregate of individuals motivated by private gain. Since it should mean "citizen's economy"[9] it should pass beyond private gain and include national gain. Current political economy, however, says Ruskin, is mercantile economy, concerned with "establishing the maximum inequality in your own favour." And it assumes that such inequalities are necessarily advantageous. But they cannot be advantageous unless attained rightly and used for the benefit of society.[10] Ruskin, then, considers "political economy" a misnomer when used to designate mercantile economy.

But even on its own basis, that of a mercantile science, orthodox political economy is a false science. Ruskin is particular that his readers should not

[2] *The Works of John Ruskin* (eds. Cook and Wedderburn), London: George Allen, 1903–1912, VII, p. 448.
[3] *Works*, XVII, p. lxxxii.
[4] "Fors Clavigera," *Works*, XXVII, p. 95.
[5] "Unto This Last," *Works*, XVII, p. 25.
[6] "Munera Pulveris," *ibid.*, p. 147.
[7] "Unto This Last," *ibid.*, p. 44.
[8] *Ibid.*, pp. 80-81. Ruskin is here referring to John Stuart Mill's *Principles*.
[9] "A Joy Forever," *Works*, XVI, p. 9.
[10] "Unto This Last," *Works*, XVII, pp. 46-47.

overlook this part of the indictment. When William Smart, Ruskin's disciple and professor of political economy at Glasgow, makes the statement that "Ruskin does not object to Political Economy, so long as it is confessed *Mercantile Economy*," Ruskin says in answer, "While I admit there is such a thing as mercantile economy, distinguished from social, I have always said that neither Mill, Fawcett, nor Bastiat knew the contemptible science they professed to teach."[11]

So we can see that he wishes to emphasize the double nature of the charge, even though his equivocal comment on the professionals is hard to interpret. Does he mean that they did not know how contemptible the science was? Is he saying that they did not know it firsthand and from practical experience? Does he mean that they did not know to what extent practical men applied the rules of orthodox political economy as rules of life? Does he mean that they have stated in an inadequate way the fundamental concepts of the science? Probably the last; but Ruskin, master of the implicative statement, sometimes becomes a victim of it. It is clear, at any rate, that he charges the science with falsity even within its self-imposed boundaries.

More specific charges which do not fit well into the above scheme are (a) that no one has defined the terms it employs, such as "wealth" and "necessaries and conveniences";[12] (b) that orthodox political economy excludes the consideration of intrinsic value:

> . . . the first specialty of the following treatise[13] consists in its giving at the outset, and maintaining as the foundation of all subsequent reasoning, a definition of Intrinsic Value, and Intrinsic Contrary-of-Value; the negative power having been left by former writers entirely out of account, and the positive power left entirely undefined.[14]

(c) that orthodox political economy ignores spending:

> And it is because of this (among many other such errors) that I have fearlessly declared your so-called science of Political Economy to be no science; because, namely, it has omitted the study of exactly the most important branch of the business—the study of *spending.*[15]

There seems to be little doubt that Ruskin is justified in insisting that economic man cannot be isolated from social man. But that as a commercial science the current political economy was entirely false qualified critics doubt. Smart believes that Ruskin would have been more sympathetic with the orthodox political economists if he had understood them.[16] Masterman says that Ruskin and his antagonists cannot disagree since there is no common ground between them.[17]

[11] *Ibid.*, p. lxxxiii.
[12] *Works*, XXXVI, pp. 416 and 418.
[13] "Munera Pulveris."
[14] *Works*, XVII, p. 135.
[15] "The Crown of Wild Olive," *Works*, XVIII, pp. 451–452.
[16] William Smart, *Second Thoughts of an Economist*, London: Macmillan and Co., 1916, p. 4.
[17] F. G. Masterman, "Ruskin the Prophet," *Ruskin the Prophet and Other Centenary Studies* (ed. J. H. Whitehouse), London: George Allen and Unwin, 1920, p. 47.

What is this misunderstanding with which friendly critics of Ruskin credit him? It results from Ruskin's conviction that there can be no science of commercial economy, at least on the lines of the traditional science, because its elementary conceptions are incapable of abstraction. Let us illustrate. Ruskin defines value as that which "avails towards Life." Value is intrinsic, and it will not avail towards life unless the valuable object is in the hands of a person who is able to appreciate true worth, a person endowed with acceptant capacity.[18] In pointing out the difference between this attitude and that of the orthodox economists, it is well to notice the point in the history of economic theory at which intrinsic value and exchange value become definitely dissociated. Adam Smith says:

> The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use'; the other 'value in exchange'. The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use. . . . In order to investigate the principles which regulate the exchangeable value of commodities, I shall endeavor to show,
>
> First, what is the real measure of this exchangeable value; or, wherein consists the real price of all commodities.
>
> Secondly, what are the different parts of which this real price is composed or made up.
>
> And, lastly, what are the different circumstances which sometimes raise some or all of these different parts of price above, and sometimes sink them below their natural or ordinary rate. . . .[19]

He then proceeds to his exposition of the labor theory of value and thereafter speaks of real value—the amount of labor expended—and nominal value—the market price. Note, however, that this real value is not value in use, or intrinsic value, but real value in exchange, which Smith is comparing with nominal value in exchange.

Thus it may be observed that Adam Smith, after making the distinction between value in use and value in exchange, drops the former without further comment and begins his analysis of the latter, saying as clearly as he deems it necessary to say—that is, by disregarding it altogether after making his abstraction—that his inquiry purposes to deal only with exchange and not with use, that he has no intention of denying value in use but only of disregarding it in his treatise. And Smith's procedure is justifiable. After all, he never intended that his political economy should be studied apart from its philosophical background. Did he not hold the chair of ethics at Glasgow? Was not political economy merely the branch of ethics with which he was chiefly interested? Had he not written *The Theory of Moral Sentiments*, which considered the ethical postulates of human behavior? Was he not free to write another which considered only the economic postulates?

[18] "Unto This Last," *Works*, XVII, pp. 84–88.

[19] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (ed. J. E. T. Rogers), Oxford: Clarendon Press, 1880, Bk. 1, Chap. 4, pp. 29–30.

Again, Ricardo, after beginning with Smith's distinction between value in use and value in exchange and stating that utility is "absolutely essential" to exchange value, thereafter takes it for granted and leaves it out of account:

> Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them.[20]

Now this utility which Ricardo takes for granted in a commodity is to Ruskin the same thing as value.[21] But with the elaboration of economic theory "utility" comes to mean economic utility. Witness Jevons' explanation:

> . . . we must not confuse our fundamental idea of utility with *usefulness*, or with any other notion implying moral approbation or reprehension. . . . Even that which is hurtful to a person may by ignorance be desired, purchased, and used; it has then utility.[22]

And most twentieth-century economists are not inclined to bring up in their economic treatises the question of fundamental utility. For instance, Marshall states that "Utility and Want are used as correlative terms, having no ethical or prudential connotations."[23]

So it should be clear that different presuppositions necessitated different definitions of fundamental concepts and forced Ruskin and the orthodox political economists into non-agreement. It might well be that this non-agreement is based upon misunderstanding on Ruskin's part. If so, it is the same sort of misunderstanding which is common among most non-professional present-day critics when they pass judgment upon nineteenth-century political economists. For example, Dean Inge says:

> Ruskin's theory of value began to clash at once with the theory of value which he found generally accepted and almost universally acted upon. To the economist of his day value meant exchange-value.[24]

Since this problem involves the methodological inquiry reserved for the second part of my study, a short comment should suffice here. The orthodox econo-

[20] *The Works of David Ricardo* (ed. J. R. McCulloch), London: John Murray, 1876, p. 7.

[21] Utility, or usefulness, to Ruskin occurs when an object "of an availing nature" is placed "in availing hands"; (*Works*, XVII, 88) thus, since "a truly valuable or availing thing is that which leads to life with its whole strength" (*Ibid.*, 84), usefulness and value are identical to Ruskin. So we might call Ruskin's value "usefulness-value". After defining the senses in which the word "value" may be used—"cost-value", "exchange-value", "use-value", and "esteem-value— Fraser says, ". . . use value is always now known to economists by a special word (as a rule, the word 'utility')—though the reason in this case is not that they are unaware that 'value' may mean usefulness, but that they are too well aware of this, and of the confusions to which it is liable to give rise." (L. M. Fraser, *Economic Thought and Language*, London: A. and C. Black, 1937, p. 60.)

[22] W. S. Jevons, *Principles of Economics*, London: Macmillan & Co., 1905, p. 12.

[23] Alfred Marshall, *Principles of Economics* (eighth edition), London: Macmillan & Co., 1936, p. 92.

[24] "Ruskin and Plato," *Ruskin the Prophet and Other Centenary Studies*, p. 36.

mists of Ruskin's day did *not* mean that "value meant exchange-value." They meant that value in exchange was the kind of value with which economics dealt.[25] Doubtless the science was too narrow. Doubtless moralists could scarcely convince practical men that they should recognize intrinsic as well as exchange-value, especially when practical men armed themselves with what they understood to be the science of political economy and defied the moralists. Political economy *did* need to add the point of view of social economy as one of its modes of approach. But the assertion that such economists as Senior and Mill were without a sense of values morally higher than exchange-value is demonstrably absurd.

In the passages quoted at the beginning of this paper there is an assumption that political economy and industry fall under a similar indictment. Ruskin asserts, indeed, that political economy is to blame for the evils of current industry. As he says to the manufacturers at Bradford, "And all our hearts have been betrayed by the plausible impiety of the modern political economist."[26] Is there any justification for Ruskin's assertion? Now, there is little evidence that Ruskin read the political economists, none that he read them carefully and with sympathy. There are only the copy of Mill's *Principles* with Ruskin's notes in the margins,[27] and the scattered quotations from economic treatises in his works from 1860 onwards. We have the testimony of his friends Frederick Harrison and William Smart that he did not understand the traditional political economy. But though he may have known little about political economists and their writings, he saw that many industrialists in Parliament and out regulated their conduct by what they considered, or professed to consider, the doctrines of political economy. And he was content with his *post hoc*: he could scarcely have been unaware of the fallacy of his reasoning. On the other hand, he despised an investigation that professed to treat human conduct as a science, and he was convinced that the doctors of the science were either malevolent or stupid.

Ruskin is possibly justified in his attack on political economy. Or, if he did not have justification, he assuredly had excuse for interpreting the statements of its professors in the same way as did industrialists. The moralist was free to use for purposes of attack the interpretation which the business man used for purposes of "good business."

Of course, Ruskin was not the first, nor has he been the last, to blame political economists for the sorry conduct of business and government. Besides English strictures on the dismal science, European economists and social reform writers had made similar charges since the publication of Sismondi's *Nouveaux Principes*

[25] This statement is of course not technically complete. Fraser divides the historic value theories into three groups according to the kind of non-exchange value which in each system modifies exchange-value. In the labor and cost of production theories it is "embodied cost value", in the early marginal utility theories it is "use value", in later marginal and scarcity theories it is "esteem value". (*Economic Thought and Language*, p. 107).

[26] "The Crown of Wild Olive," *Works*, XVIII, p. 455.

[27] *Works*, XXXIV, pp. 708-709.

in 1827. In his treatise on Ruskin there is no doubt that Hobson agrees with Ruskin that political economy is guilty of direct defense and encouragement of industry's reckless disregard of real worth, human and otherwise.[28] In his later comments Hobson alludes to this guilt as a self-evident fact:

> The profiteers and their academic mercenaries were easily able to laugh out of consideration the whims and fads of this literary word painter. . . .[29]

And the last words of Edwin Cannan indict present-day economists on the same score:

> Economists have no right to wash their hands of the matter and say it is not their fault that the mind of the public is an Augean stable. It is their job to cleanse it, and they have had two hundred years to do it in.[30]

According to such opinions the unethical conduct of business has been either motivated or condoned by the science of orthodox political economy and of its present-day successor. Was it the purpose of the political economy of the nineteenth century, then, to give precept to business and government or merely to study existent conditions? The older writers on the subject encompassed both purposes; the later ones attempted to exclude the first purpose and to construct a positive science. However, this question involves the purpose and method of the orthodox political economy of Ruskin's day, which we shall now consider.

## II

We have observed Ruskin's indictment of orthodox political economy and have seen that there may have been justification for his critical point of view. But we are not yet ready to pass judgment, for we have heard only the plaintiff. Literary critics in general do not know how sound Ruskin's indictment is, because they apparently are unfamiliar with the postulates and conclusions of orthodox political economy. Also their judgment of Ruskin's economics has been favorable or unfavorable according as they have heard or read favorable or unfavorable professional criticism. But the average economist, even though he may sympathize with Ruskin, bases his judgment on fragmentary knowledge of Ruskin's works. True, the late John A. Hobson, one of the most distinguished of twentieth-century economists, was a student of Ruskin. But Hobson has his own axe to grind and upholds Ruskin's indictment with the more vigor because it is the same as his own indictment. I do not say that Ruskin and Hobson are wrong. I wish only to point out that since Hobson, the only qualified economist who has written at length on Ruskin, is an economic heretic himself, it is advisable to see that the orthodox devils get their due. This is expecially necessary as Hobson and other professional critics take for granted the reader's acquaintance with the orthodox standpoint. The literary investi-

[28] J. A. Hobson, *John Ruskin, Social Reformer*, Boston: Dana Estes, 1898, p. 99 *et passim*.

[29] "Ruskin as a Political Economist," *Ruskin the Prophet and Other Centenary Studies*, p. 98.

[30] "The Need for a Simpler Economics," *Economic Journal*, 43(1933), 369.

gator, however, is ignorant of that standpoint and is therefore inclined to accept the distorted summaries usually given by Ruskin's biographers and other literary commentators.

Every science begins as a body of practical rules and only later permits of theoretical formulation. Political economy is no exception. Therefore, in searching among the English political economists for formal statements of scope and method, we must pass over Smith, Malthus, and Ricardo, and make inquiry of Senior, J. S. Mill, and Cairnes.

Nassau William Senior (1790–1864) opens his *Political Economy* by distinguishing the science as he understands it from the more general science of society contemplated by many of his French and English predecessors. He believes that a clearer, more constructive science will result from "confining the reader's attention to the Nature, Production, and Distribution of Wealth."[31] And wealth he defines as "those things, and those things only, which are transferable, are limited in supply, and are directly or indirectly productive of pleasure or preventive of pain; or, to use an equivalent expression, which are susceptible of exchange . . . or to use a third equivalent expression, which have Value."[32] So it cannot be doubted that Senior makes clear his abstract definition of wealth, however unwise he and his whole tribe may have been in thus restricting the meaning of the term.[33]

Though Senior carefully separates political economy from the surrounding field of social science, he does not minimize the importance of the broader study. On the contrary, he says that the political economist should not allow himself "to wander into the more interesting and more important, but far less definite, fields by which the comparatively narrow path of Political Economy is surrounded."[34] The discussion is largely a terminological one and to the uninitiated seems a futile quibble, especially since nothing but misunderstanding results from it. Orthodox political economists never confine their attention to what they consider the purely scientific aspects of their science. They actually are political philosophers who use economic science as a tool. It is to be regretted, however, that the analytical British mind demanded for so long that the definite theoretical line be drawn between strict political economy and those other subjects which political economists indeed treated, but in so doing always felt that they had to apologize. In the twentieth century the same controversy has continued, but there seems to be more tolerance of diversity of method and content. Though there are still formal dissenters, anything is an economic problem nowadays which economists in the serious pursuit of their investigations feel called upon to treat.

[31] *Political Economy*, London: Griffin and Co., 1850, p. 2. First published in 1836.

[32] *Ibid.*, p. 6.

[33] "In political economy a word is certainly needed to express the sum of things having exchange value. But it is exceedingly unfortunate, for a science which rests on an analysis of industrial life and cannot afford to neglect the common meaning of common words, that the older economists should have used the word 'wealth' for this purpose." (William Smart, *Studies in Economics*, London: Macmillan and Co., 1895, p. 219.

[34] *Political Economy*, p. 2.

John Stuart Mill (1806–1873) begins his essay on method by outlining a science of social economy which "embraces every part of man's nature." He then delimits the science of political economy:

> It is concerned with him solely as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of means for obtaining that end. It predicts only such of the phenomena of the social state as take place in consequence of the pursuit of wealth.[35]

Having abstracted from reality in pursuance of his scientific method, the economist, says Mill, must not apply his results without reinstating the actual.[36]

Then Mill defines the unit of his science, the much-maligned "economic man." As an abstract science political economy necessarily employs hypothetical concepts. But the actions of this hypothetical man do not even indicate, much less justify, the conduct of actual man.[37] Ruskin has been given deserved credit in the exorcism of this bogey:

> ... he has, as it seems, most notably of all who have attacked it, overthrown and destroyed that figment of the orthodox imagination, the "economic man."[38]

I do not wish to disparage his work in this respect, but apparently the hypothetical man has been more abused by non-professionals than misused by professionals. Some such concept has been found necessary by all pure economic theorists. Though it is alleged that the "economic man" has disappeared, Hobson believes that he has just changed his name:

> . . . the notion that all qualitative differences can be resolved into quantitative may be regarded as the modern substitute for that economic man moving in the "simple system of natural liberty" by which vested interests defended themselves against dangerous assaults in the earlier era of modern capitalism.[39]

Now, Hobson contests the value of the abstraction involved in marginal theory with far more specialized wisdom than Ruskin employed when he penned his famous image of men without skeletons.[40] Yet the majority of present-day economists believe that there is virtue in marginal utility economics, just as in Ruskin's day economists found justification for production-cost economics. It may be that, as Hobson suggests, the popularity of both systems can be traced partly to their protection of vested interests. It may be, on the other hand, that an abstract commercial science is an essential scientific study. Ruskins and Hobsons may then be invaluable in pointing to new and profitable fields of socio-

[35] *Essays on Some Unsettled Questions of Political Economy*, London: J. W. Parker, 1844, pp. 137–138. The essay which concerns us here was published previously in the *Westminster Review*, 26(1836), pp. 1–29.

[36] *Ibid.*, p. 140.

[37] *Ibid.*, p. 144.

[38] F. J. Stimson, "Ruskin as a Political Economist," *Quarterly Journal of Economics*, 2(1888), pp. 444–445.

[39] *Free-Thought in the Social Sciences*, New York: Macmillan and Co., 1926, p. 107.

[40] "Unto This Last," *Works*, XVII, p. 26.

logical research; they cannot by so doing discount, in the minds of specialized students, the more abstract inquiry.

Let us return for a moment to Mill. It has been said by many commentators that though in Mill's earlier essay on method he characterizes his science as *a priori* and abstract, when he comes to apply his method in his *Principles* he finds that method impracticable. I find no such contradiction in Mill's theory and practice. He does say that the political economist as such cannot apply his science to actual conditions; but he professes to be more than a political economist. His science is merely an instrument to be used to ascertain the laws of sequence and coexistence in economic phenomena. So he calls his later work *Principles of Political Economy with Some of Their Applications to Social Philosophy*. In so entitling it and employing in it other than strict economic reasoning, he is not departing from his earlier theoretical platform.

The history of the economic theory developed by the political economists here under consideration presents a succession of sallies into and retreats from the general field of social science. The various generals adopted various tactics in defense of the theoretical citadel: some attempted to strengthen the walls, some to subdue the surrounding country, some to make common cause with the enemy and destroy the fortifications, retaining only the observation towers. Whether or not by making concessions Mill intended to desert his Ricardian fortress, nine years after the publication of Mill's *Principles*, James Elliot Cairnes (1823–1875) felt it necessary to restate orthodox theory in its more abstract form. According to him wealth, an abstract concept consisting only of exchangeable quantities "constitutes the proper and exclusive subject-matter for Political Economy—that alone with which it is primarily and directly concerned."[41] Cairnes is willing to relinquish the name, but not the discrete inquiry:

> Even if it should be thought desirable to give the *name* of Political Economy to the larger inquiry, it would still be necessary to reserve for separate and distinct investigation the laws of the production and distribution of wealth.[42]

Therefore Ruskin's point that orthodox political economy falsely arrogates the name of political economy is granted without argument, and all his impassioned denial is so much fireworks. Perhaps. But the problem is not as simple as that. Ruskin's objection is not merely the fact that the professors of orthodox political economy assume a false name for their highly-restricted study but the fact that their falsely-named economy is understood and applied *as if* it encompassed a complete societal theory. Regardless of what political economy is supposed by scholars to be, Ruskin asserts that it abets mammonism. Cairnes says that political economy abets nothing; it stands neutral among systems and gives no advice.[43] Ruskin ignores the fact that political economy gives no advice,

[41] *The Character and Logical Method of Political Economy*, London: Macmillan and Co., 1888, p. 26. First published in 1857.

[42] *Ibid.*, p. 33.

[43] *Ibid.*, p. 37.

being only too aware that advice is taken by practical men. And Ruskin's position is tenable. To the scientists who formulated the natural laws of political economy those laws were statements of tendencies subject to the qualification *ceteris paribus*. To practical men those laws assumed the aspect either of justice or of inevitability. And we cannot say that the scientists were entirely justified and the practical men entirely benighted. It is impossible to exclude normative implications from positive statements.

Though Cairnes insists on the neutral aspect of his science, it is not that he makes light of its practical application. He is only pointing out that the application is not the science itself but the use of its results. The data furnished by this science

> . . . may indeed go far to determine our judgment, but they do not necessarily, and should not in practice always, do so. For there are few practical problems which do not present other aspects than the purely economical—political, moral, educational, artistic aspects—and these may involve consequences so weighty as to turn the scale against purely economic solutions. On the relative importance of such conflicting considerations Political Economy offers no opinion, pronounces no judgment. . . .[44]

This conception of economics has been retained by the successors of the orthodox political economists. Marshall is speaking of the circumscribed traditional science when he says that economics has been more successful than any other social science because of its greater definiteness and exactness.[45]

Hobson, the most famous critic of the modern classical school, argues against this curtailment of scope which, Marshall believes, makes for scientific precision:

> The notion that, by setting groups of students to work at gathering, testing, measuring and tabulating crude facts . . . valuable truths of wide application will somehow be spontaneously generated, and that by a purely inductive process there will come to light general laws authoritative for social policy, is entirely destitute of foundation. The humblest grubber among "facts" must approach them with some equipment of questions, hypotheses, and methods of classification, all of which imply the acceptance of principles derived from a wider field of thought.[46]

Hobson's ideas have been quoted freely in this study because to understand Hobson's attitude is to understand the attitude of Ruskin. Hobson was what Ruskin would have been, had the latter given his life to the study of economics.

Even a summary treatment of the orthodox political economy of Ruskin's day is incomplete without a consideration of two concepts always associated with that economy: natural law and *laissez-faire*. Of the first Gide says:

> They are simply natural laws like those of the physical order, and are clearly non-moral. They may prove useful or they may be harmful, and men must adapt themselves to them as best they can.[47]

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[44] *Idem.*

[45] *Principles of Economics*, p. 780.

[46] *Work and Wealth* (revised edition), London: Allen and Unwin, 1933, p. 2.

[47] Charles Gide and Charles Rist, *A History of Economic Doctrines*, New York: Heath and Co., p. 354.

Elsewhere he says:

These laws are in no way opposed to man's liberty or to individual effort, the first and sole motive in social evolution. They are, on the contrary, merely the *expression of the relations which arise spontaneously* between men living in society when left to themselves and free to act according to their interests.[48]

Such argument constitutes rational theory, but theory which is inapplicable to irrational society. It is impossible to formulate natural laws without sanctioning their action and thus opposing man's liberty and individual effort. If a thing is "natural," the man in the street considers every modification "unnatural," regardless of fine-spun scientific reasoning. This point needs emphasis in relation to our study. Ruskin accuses orthodox political economists of malicious intent. Such a charge is so palpably ridiculous that it accounts for the bitter or amused opposition to his economic writing. Ruskin may have been unaware of the scientific attitude, as many have said he was. On the other hand, he may have regarded the scientific intent as irrelevant, being aware that orthodox economists were the helpless victims of their theories. If political men had been wise enough to apply orthodox political economy as suggested by the best theorists, all would have been well. But they were not, and their half-wisdom dictated unmodified application of economic theory:

All this time, the attitude of English statesmen was one of indifference. In 1845, the Devon Commission laid bare the fatal defects of the Irish land system and suggested sensible remedies. But no proposals for reform could make headway in face of the prevalent doctrine of *laissez-faire*. Private property was regarded as sacred, and the principles of the classical political economy were invoked in support of a policy of inaction. It was in vain that the economists themselves pointed out the uselessness of maintaining the forms of free contract when the reality was absent.[49]

This brings us to the second concept, *laissez-faire*, about which Gide remarks as follows:

But the Classical school itself thought of *laissez-faire* neither as a dogma nor a scientific axiom. It was treated merely as a practical rule which it was to follow, not in every case, but wherever a better had not been discovered.[50]

That is true. Even Senior, for many years the butt of commentators who speak of *laissez-faire* economists, can be exonerated.[51] After quoting Cairnes' statement that "the maxim of *laissez-faire* has no scientific basis whatever, but is at best a mere handy rule of practice," John Maynard Keynes says:

[48] Charles Gide, *Political Economy*, New York: Heath and Co., p. 18.

[49] Arthur Birnie, *An Economic History of the British Isles*, New York: F. S. Crofts and Co., 1937, p. 266.

[50] *A History of Economic Doctrines*, p. 357.

[51] Redvers Opie, "Senior's Social Economy," *Quarterly Journal of Economics*, 43(1928–1929), pp. 373–374.

This, for fifty years past, has been the view of all leading economists.... Nevertheless the guarded and undogmatic attitude of the best economists has not prevailed against the general opinion that an individualistic *laissez-faire* is both what they ought to teach and what in fact they do teach.[52]

But the difficulty remains despite explanations. It lies in part in the fact that conditions which result from *laissez-faire* approximate, in theory, those hypothetical conditions "which arise spontaneously between men living in society when left to themselves and free to act according to their own interests."[53] That is, *laissez-faire* acquires the aspect of natural law. It is easy to see, then, why *laissez-faire* and nineteenth-century orthodox political economy were confused in the common mind during Ruskin's day and are confused by present historians.

The confusion also results partly from the fact that Adam Smith was looked upon in the nineteenth century as the father of orthodox political economy. Therefore the *Wealth of Nations* (1776)—which contemplates a society so different from that of the succeeding century as to negate Smith's great work for practical purposes in the later period—was applied with disastrous effects in the nineteenth century.[54] This problem would take us too far afield, however.

Let us conclude. In so far as Ruskin's indictment applies to the work of the best exponents of nineteenth-century orthodox political economy, it is false. In so far as his indictment applies to the prostitution of that economy by politicians and industrialists, it is sound. But as to whether the economists were to blame for the misapplication of their theories, we shall have to content ourselves here with a suspension of judgment. The purpose of this study has been only to clarify Ruskin's position in relation to that of his professional contemporaries.

[52] *The End of Laissez-Faire,* London: L. and V. Wolf, 1927, pp. 26–27.

[53] *Supra*, p. 11, note 47.

[54] Cf. Arnold Toynbee, *Lectures on the Industrial Revolution of the Eighteenth Century in England*, New York: Humboldt Publishing Co., 1884, p. 14; and T. E. Cliffe-Leslie, *Essays in Political Economy*, London: Longmans, Green, and Co., 1888, pp. 38–39.

# FINANCE AND EFFECTIVE WARTIME USE OF AGRICULTURAL RESOURCES

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For a decade or more prior to the beginning of World War II much of the thinking on agricultural finance and related agricultural policies was conditioned by what some have labeled the psychology of a "surplus" economy. It is not surprising, therefore, that considerable time elapsed, after the outbreak of the present war, before the influence of a possible wartime "scarcity" economy was fully reflected in the thinking of students of agricultural policy. One of the early reactions was to stress the increased incomes which might accrue to the farmers. At the outset, emphasis was placed on the prospects that those farmers who were still in a weak financial position would soon be able to obtain enough income to set their financial houses in order, and on the dangers that buyers of farms would involve themselves in excessive new debts as many did during and following the last world war. This attitude changed radically with the rapid shift from widespread under-employment of agricultural manpower and other rural resources to drastic shortages of these resources. The emphasis has shifted from control of agricultural production to the adoption of measures designed to maximize agricultural production. To accomplish this latter objective subsidies and related forms of public assistance are now advocated as methods of overcoming extra costs which may be incurred in the production and distribution of farm products. Earlier these inducements were discussed mainly in terms of raising the level of farm income and improving the lot of low-income groups.

The present complex and difficult situation has led naturally to differences of opinion on questions of wartime agricultural policy. Time lags and leads in the recognition of wartime agricultural problems alone could be expected to give rise to divergent views. Likewise the relative weights given to several partially conflicting public objectives—holding down the cost of living for the urban population, promoting effective wartime uses of agricultural resources, safeguarding farmers against possible post-war financial losses, and distributing the costs of the war equitably among different economic groups—doubtless have influenced the views held on specific agricultural policy issues.[2]

These differences of opinion in turn have been reflected in divergent views on issues of wartime agricultural finance policy. Students of financial policies, as they relate to agriculture, have found it necessary to reorient their thinking not only on many of the technical aspects of "farm finance," but also on the questions that fall outside the general field of finance.

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[2] Issues in the field of agricultural finance growing out of the relative weights given to these national objectives are discussed in an article by the author and H. C. Larsen entitled "Agricultural Finance Guides in Wartime," *Journal of Land and Public Utility Economics*, February 1943, pp. 59–68.

In this paper an attempt is made to explore certain aspects of wartime economic policy which affect wartime agricultural finance policy. Three lines of inquiry are pursued. First, the conditions, arising out of decisions reached on wartime economic policy as a whole, which affect the choice of financial policies to be used in an all-out agricultural production program. Second, the specific aspects of wartime production which are of most significance in redirecting public agricultural finance policy. And third, the specific agricultural finance problems which have emerged as a result of the shift from a peacetime to a war production program.

## I

Public agricultural finance policies, in relation to wartime agricultural production, embrace a number of arrangements for helping those farmers best able to use agricultural resources. Loans and subsidies, for example, tend to direct or redirect the use of resources; and measures which reduce financial risks operate indirectly in the same direction. On the other hand, the payment of additional taxes, the purchase of war bonds, and the payment of debts mean in effect giving up immediate claims to resources. All of these measures have a place in a wartime agricultural economy. Thus, if loans or subsidies are to be most effective in shifting control over resources, it becomes necessary to adopt measures designed to reduce the money claims in the hands of others. Credit expansion and subsidies at certain points and anti-inflationary fiscal and credit policies at others are designed to assist in a prompt redirection of production and consumption. In peacetime these financial devices are seldom used extensively to control the use of the farmers' resources, whereas in wartime the Government employs these or similar devices to induce desired changes in our farm economy.

Financial measures would still perform important, although somewhat different, functions even in a more rigidly controlled wartime economy than now exists. For example, to promote more efficient production only certain farmers might be permitted to use certain kinds of seed, fertilizer, machinery, and other agricultural resources. But unless the framework of our private economy is destroyed, some kind of financial arrangements would be needed to enable these same farmers to pay their creditors. And unless some restrictions were imposed on purchase of nonrationed resources, appropriate taxation and savings arrangements would be needed to draw off their surplus income and the funds received by their creditors.

Modifications in the functions of finance can be illustrated by the increased significance of what is sometimes called "coupon money" and the correspondingly reduced significance of "ordinary money." The farmer's ability to obtain control over certain resources is determined both by his ability to obtain coupon money and by his command over ordinary money. Issuing to him the necessary permits, however, does not mean that the farmer will be both able and willing to acquire resources and use them effectively. Ability and willingness to finance his farming operations with his own or borrowed "ordinary money" still perform essential functions. It must be recognized, however, that at present most

farmers are permitted to buy such things as production supplies, livestock, farm equipment, and feed. Agricultural working capital is still distributed among farmers mainly according to their willingness and ability to buy with ordinary money. Likewise, the farm real estate market is still free from direct governmental restrictions. Allocation of this essential resource among different farmers is still carried on largely through the market, and most of the financing of agricultural production still operates along conventional lines.

Because agricultural finance policies in this war must be geared to a mixture of authoritarian and free private enterprise economies, the wartime role that finance can play will be determined, in no small degree, by the proportions in which these two general types of economies are eventually compounded. Although such a generalized conception of the place of agricultural finance in a wartime agricultural economy lacks the degree of precision often desired, it nevertheless helps to explain why some students of agricultural finance point with confidence to the unused lending power of country banks and other lenders as evidence of the absence of financing problems in the agricultural production program. It also helps to explain why others, looking at the same facts, see needs for extensive new Federal agricultural finance facilities. The first view emphasizes the availability of agricultural credit of the more conventional types, the second emphasizes the need for special types of financing that go far beyond the usual kinds of credit arrangements. The easy answer to these apparently contradictory views is that there is a place for both kinds of financing in a war emergency. More important questions pertain to how much and what kinds of special financing are likely to be needed. The appropriate answer depends on a number of things, but especially on the kinds of economic problems the Nation actually faces in reshaping the agricultural production pattern for total war. These are of sufficient independent importance to warrant separate discussion.

## II

Few would disagree that the major objective of agricultural policy as a whole in total war is to promote the most efficient use of the manpower and other resources that can be made available for essential agricultural production. And agricultural finance policy can hardly have objectives that are in conflict with those of agricultural policy as a whole. It seems reasonable to assume, therefore, that the various financial measures—credit expansion and contraction, subsidies, taxation, savings programs, governmental absorption of risks, etc.—should be directed insofar as possible toward efficient use of the available *means* of agricultural production to produce those *ends* considered paramount in a wartime emergency.

But this raises important questions regarding the physical means and ends of wartime agricultural production. Since both the means and the ends are different in wartime from those in peacetime, students of wartime production problems must be prepared to reexamine traditional concepts before using them to set up guides for agricultural finance policy.[3] The *ends* of agricultural production in

[3] The February 1943 *Proceedings of the American Farm Economic Association* contains several papers devoted to wartime problems of agricultural production.

wartime are the logical starting point for any such analysis. These differ from peacetime ends of agricultural production in two important respects: (1) Under war conditions a different combination of agricultural products is needed, and (2) many of these products are needed more promptly than would be the case in peacetime. This means extensive shifts in production and greater emphasis on short-run productive efficiency. The agricultural economy is placed in somewhat the same position as any other segment of our national economy when demand shifts rapidly from one kind of production to another. It is necessary to redirect agricultural operations under the changed conditions in order to economize in the use of the resources that become most scarce; and less attention needs to be given to economy in the use of resources that formerly were scarce but have become relatively more plentiful as a result of the shift in demand.

Certain special characteristics of the *means* also need to be considered. Some kinds of agricultural resources and manpower are quite flexible and can be redirected promptly and with little loss of usefulness into other fields of agricultural production. This applies to such things as materials for fertilizer, certain kinds of machinery, feed, and to some extent to land and labor. Other kinds are so specialized that they are for practical purposes "sunken resources" in the short run. Their value in the short run depends on what can be gotten out of them where they are. The greater the need for speed in shifting to different patterns of production, the more of the resources take on characteristics of sunken resources. Because some labor and other resources are difficult to shift to other uses, they may become relatively plentiful. The problem of wartime productive efficiency in agriculture, therefore, becomes one of promoting the most efficient short-run combinations of both the relatively scarce and the relatively plentiful agricultural resources.

Two principal lines of approach can be used simultaneously in working out the most efficient short-run combinations of agricultural resources. One involves special measures to promote greater flexibility in the use of what would otherwise be sunken resources. This involves such things as special financial and nonfinancial measures to promote shifts of specialized land, labor, and machinery from temporarily less important to more important uses. Moving labor from surplus areas in some parts of the South to deficit areas elsewhere, and changing farms over from short-staple cotton to peanut production or from wheat to other products more needed in the short run, have been cited as examples. A second line of attack operates to distribute the more flexible of the resources, particularly those that are most scarce, within the agricultural economy so that the immediate returns in terms of essential products per unit of scarce resources are maximized. This involves influencing the direction of the inputs of the flexible elements of the scarce resources so that the output of needed agricultural products per unit of scarce resources used is increased promptly.

When phrased in very general terms such as are used above, there is perhaps little occasion for wide divergence of opinion over the general principles of short-run production economics, whether in agriculture or in any other field. But in the application of these principles to specific agricultural situations there is ample

room for differences of opinion. And many of the controversial issues in the agricultural field have direct implications for agricultural finance policy, since financial measures are one means by which shifts in control over resources, and changes in the uses made of these resources, can be effectuated.

One example of such an issue is the difference of opinion that has persisted regarding the relative advantages of an expansion of production on low-income farms as compared with an expansion on larger commercial farms.[4] In its simplest form, this is largely a question as to whether a given amount of fertilizer, farm machinery, livestock, or some other scarce agricultural resource would add more to the output of needed agricultural products in the short run if used on the one kind of farm rather than on the other. If the same general type of farming is involved in the case of both groups of farms, comparisons of prospective added output per unit of added input of the same types of scarce resources should give the answer. Such comparisons, however, are not always so easily made as would be suggested by the above illustration. Differences in relative scarcity of some resources vary widely by areas. In some areas labor and land are relatively plentiful resources; whereas livestock, machinery, buildings, and auxiliary marketing and transportation facilities are relatively scarce resources. In other areas that are well supplied with buildings and equipment, suitable land, and other auxiliary facilities, a shortage of labor may be the principal limiting factor.

Would it be better, for example, to try to expand dairy production by increasing dairy herds in labor shortage areas in the Northeast that are already specialized in this kind of farming or by putting additional dairy cattle into the surplus labor areas in some parts of the South? Simple comparisons of average output per dairy cow in the two areas (which sometimes are used in this connection) do not take sufficient account of the importance of added input and added output relationships in the short run. Nor would comparisons confined to this one agricultural product always tell the entire story. Other alternative uses of the surplus labor would need to be considered. In many cases it would even be necessary to make a comparison between potential additions to "essential" agricultural production and potential additions to "essential" nonagricultural production.

Making comparisons of inputs and outputs based on unlike resources and unlike end products leaves much room also for differences of opinion regarding the valuations to be applied to the means and to the ends. Under a system of rigid price and other controls, price loses much of its usefulness as a common denominator. To the extent that it is necessary to use "extra market valuations" for both the production resources and the end products, differences of opinion on the importance in the war of different agricultural products, or of certain agricultural products and other industrial products, are likely to be reflected in the conclu-

[4] This debate has been the central theme of two recent articles in the *Journal of Farm Economics*. See "Obstacles to Agricultural Production Expansion" by Rainer Schiekele, *Journal of Farm Economics*, May 1942, and "Maintaining Farm Output with a Scarcity of Production Factors" by S. W. Warren and L. S. Hardin, in the February 1943 issue of the same publication.

sions reached on what apparently is a technical matter of productive efficiency in dairying.

Perhaps the most significant issue, after all, is not that between expanding production on low-income and on commercial farms as such. It may be necessary to dig deeper into matters relating to the relative importance of different products and into the economics of short-run productive efficiency to bring out the real issues that tend to become obscured in this debate. It seems reasonable to expect that additional output could be gotten on some large commercial farms only at a substantial added cost in terms of scarce resources. For others the opposite situation would be expected. Similar differences doubtless would be found among low-income farms. There seems to be little chance to resolve such an issue except in terms of specific production situations. The student of wartime financial policies in relation to agriculture, therefore, would do better to look to the field of production economics rather than to the superficial structural characteristics of farming units for basic guides for wartime agricultural finance policy in these kinds of situations.

Still another closely related aspect of the question of allocating scarce agricultural resources to different uses pertains to the using up of existing specialized production facilities. A high level of productive efficiency in the short run may be achieved on some farms only by using up existing soil fertility and farm working capital. How much of such soil fertility and working capital should be considered as a part of the inputs of scarce resources? Few would deny that such capital inputs should be compensated for in money returns to the owner. But should the fact that one farm plant is being worn out, whereas another is not, be taken into account in making added input and added output comparisons? From the viewpoint of immediate national interest in winning the war, the answer might be that using up capital resources is merely drawing on our "war fund" of productive power. But if sustained food production may be necessary not only to win the war but also to help rebuild the post-war world, then it may be necessary to give weight to the drain on more durable productive resources. This, after all, is a question of how short run is the national policy to be followed in fighting the war. General public policy guides in such matters may have to come from outside as well as from inside the field of agricultural production policy.

A specific problem relating to maintenance of productive capacity arises in connection with new plantings of sugar cane. Assuming that all immediate wartime needs for sugar could be met without continuing new plantings, should land and other resources that would otherwise go into new plantings be shifted to the production of other needed war crops that will give more immediate returns? How much should these resources promise to yield in the new crops to justify shifting land and labor that is well suited to growing sugar cane to the production of something else that in normal times would be considered an inferior use of the land and labor?

Similar problems arise with respect to the maintenance of fruit orchards and other agricultural production facilities that can be replaced only over a period of

time. Should financing policies encourage the pulling of old trees and replacing them with new ones during the war emergency, or should incentives be given if necessary to induce fruit growers to allow the old trees to stand and produce what they will for the time being? If the issue were entirely one as between new capital investment in orchards for distant future production and the production of something else that will help immediately in the war, a good case could be made for giving financial incentives if necessary to divert resources from the growing of new orchards and into other kinds of production.

The problem of how best to expand production of crops that will yield much needed vegetable oils and protein feed also illustrates possible contrasts between short-run and long-run productive efficiency. Many have urged a decrease of cotton acreage, particularly short-staple cotton, to make room for other kinds of agricultural production. Assuming that in general such a program is desirable, still other questions arise regarding the areas in which cotton should be reduced. It may be that both the people and their farming skills in some cotton-producing areas, as well as the productive capacity of the land, are somewhat in the nature of sunken resources in the short run. The land in a particular area may be as well suited for cotton seed for oil and protein feed as for any other needed war crop, and it may be that no appreciable number of the people could be shifted to another area except at very great expense. Under these conditions, the output of vegetable oil and protein feed per unit of scarce resources drawn from other areas might be as high with cotton production in these areas as if these same scarce resources were used elsewhere to expand the acreage of other kinds of vegetable oil and feed production. These are questions that would need investigation for a determination of fact, but it seems possible that a production program in some cotton areas which yield only a relatively low output of vegetable oil and feed per man or per acre could still result in the short run in relatively efficient vegetable oil and feed production from the national viewpoint. It might even be sound economy to put additional fertilizer and farm equipment into such low-yielding areas, rather than to use these resources elsewhere where acreage of vegetable oil and feed crops could be expanded only at the expense of still other much needed forms of agricultural production.

Adopting the policies necessary to obtain promptly the largest volume of "essential" agricultural commodities with what is available to produce them might well mean that aggregate agricultural production as measured by conventional indices would actually decline. But this might not be the case. Volume of production might still be maintained by using up existing agricultural capital. In fact, one of the functions of agricultural finance policy may be to speed up the rate of comsumption of accumulated economic "fat" in order to maintain the needed flow of agricultural commodities. Financing policies that result in reducing aggregate output or in maintaining output at the expense of accumulated capital are likely to appear unsound by conventional standards; but they need not be unsound if the reduced volume includes more of what is needed most or if in the short run it is necessary to consume our capital.

The foregoing rather specific illustrations do not cover all types of agricultural

production situations, nor even provide complete answers to the complicated problems of short-run production economics involved. They are intended only to suggest the varied character of the temporary production settings in which wartime guides for agricultural finance policy may need to be formulated. Nor is it intended to imply that it is the function of agricultural finance policy alone to promote the kind of productive efficiency in agriculture that is required in total war. It may well be that price policies, direct allocations of resources, and other direct methods of altering the production pattern will be found even more effective as the primary adjustment devices. But students of agricultural finance policy cannot afford to ignore the impact of agricultural production policies upon the problem of formulating wartime standards of agricultural finance policy. Financial policies need to be attuned to the physical job to be done regardless of whether or not the function to be performed by finance is to be a major or a minor one in the wartime agricultural economy.

III

So far the discussion has assumed that existing or additional new financing mechanisms can be directed at will to whatever purposes seem desirable. But the financial system itself has certain characteristics that influence its use as an instrument of public agricultural policy. It has its own peculiar kinds of flexible and "sunken-resource" characteristics as well as certain relations to other phases of the wartime economy that need to be taken into account.

We entered the war period with an agricultural credit system embracing several types of public and private lenders, each operating according to legislative and administrative standards, or self-imposed standards, that originated in a wide variety of circumstances. Restrictions on commercial and savings banks and on life insurance companies, both legal and self-imposed, reflect the influence of policies designed to provide the public with safe financial institutions. The framework within which the Federal mortgage credit institutions operate reflects public policies designed to reduce the cost and improve other terms of farm credit, to prevent foreclosures and other distress transfers of farms, and to promote a better farm-tenure pattern and still other desirable objectives that are nevertheless only indirectly related to special financing of an agricultural production program under wartime conditions. Other federally sponsored agricultural credit agencies were established to provide ordinary production credit on a more satisfactory basis than had been available before, to finance rehabilitation programs, to support farm commodity prices, to promote farmer cooperatives, and to implement many other recognized peacetime activities. In addition, local private lenders of various kinds operate largely according to self-imposed standards.

A number of ways are open to adapt this agricultural credit system to the job of special war-production financing in agriculture. Certain of the more flexible parts of the Federal agricultural credit structure could be shifted to the specific kinds of financing needed to put resources where they will produce the most. This might be done most easily in the case of those Federal credit agencies that are not expected to cover all of their costs and losses out of loan income. But

the amount of manpower needed to operate such agencies for special wartime financing also must be considered. If a larger and larger part of the financing should come to be of such a character that only the special types of agencies could carry it, the problem of having unutilized regular financing facilities would need to be considered. This suggests the further possibility of making special arrangements outside the credit field itself so that most of the wartime production financing would fit into the existing loan standards of the regular credit agencies. Thus, guaranteed loans to protect the lender and risk-absorbing arrangements to protect the borrower might go a long way to compensate for the rigidities in the loan standards of regular credit agencies.

A more extreme change would involve "retooling" all or a major part of the Federal agricultural credit agencies so that the redirection of purchasing power could be placed ahead of their usual functions. Another more extreme step might involve setting up a new Federal agricultural finance agency to take over all special war credit operations. All such measures, however, would face the criticism of unnecessary disruption of established institutions or unnecessary duplication of existing facilities. The problem is to strike a balance that will provide all needed flexibility in financing operations and at the same time make as much use as possible of existing specialized personnel and facilities.

Financing facilities are somewhat easier to adjust than are farmers' production programs because much less is involved in the way of physical change. But established ways of granting credit, existing laws, vested interests in continued operation in the credit field, all operate to give existing financing agencies certain "sunken-resource" characteristics. Accordingly, it may be necessary to adopt temporary expedients in arranging credit facilities just as elsewhere in a wartime economy. This may involve coordination of the operation of the Federal financing agencies that are capable of speedy conversion to special wartime financing of agriculture, and whatever adaptation seems feasible in the case of the loan agencies that are committed by their structure or other circumstances to conventional agricultural lending.

As any special form of agricultural credit that might be provided probably would include a substantial element of public subsidy, withholding such credit is as important as making credit available. Providing credit to farmers who cannot make efficient wartime use of additional scarce resources would hamper efficient production. Likewise, Government absorption of risks, either in connection with loan operations or in connection with the use of the farmer's own funds, can either increase or decrease short-run productive efficiency. Whether the financing standards for a special credit agency could be worked out to make minute differentiations, or would need to be set up to apply to broad classes of cases, depends on many administrative considerations that lie outside the scope of this paper.

Equally complicated is the question of preventing the usual credit operations of the long-established public and private credit agencies from misdirecting the use of agricultural resources. Since any added credit that might be needed presumably could be supplied, if necessary, through special credit facilities, the

problem would be largely one of keeping the regular credit agencies from making loans that should not be made. Unless such credit sources were to be tied in directly with the wartime financing agencies, it would be expected that in general they would follow the usual peacetime standards of credit policy. But whether any serious danger exists that regular loan operations would distort the agricultural production pattern depends on whether prospects with regard to agricultural income and capital values in an economic upheaval such as occurs in wartime give incentives to make loans that divert resources from higher to lower short-run agricultural uses. Fear of general inflation, no doubt, results in some nonfarmer and farmer purchases of farms on credit as an inflation hedge or for other purposes not associated with efficient operation in the short run. Also, in a wartime economy operating under various kinds of blanket price controls and incentives, it seems possible that relatively favorable income or capital value prospects might emerge in particular situations that do not reflect a real wartime need for expansion of production.

Although some otherwise "sound" lending might nevertheless work at cross purposes with the objective of efficient agricultural production for the war period, there is still a question whether controls operated indirectly through detailed restrictions on the loan operations of a large number of regular lending institutions and private individuals can be administered effectively. Perhaps one reason why financing of the war-production program as a whole, as well as the agricultural phase of the program, is likely to place more emphasis on selective credit expansion and subsidies, and less emphasis on selective credit control, lies in the difficulties in administering the latter.

Expansionary credit or subsidies tend to create inflationary pressure in the market. But draining away surplus income, resulting from expansionary financing methods, will retard undesirable credit expansion. This draining may be accomplished by taxation and savings programs. By combining even a moderately selective anti-inflationary program with a vigorous selective credit expansion and subsidy program, many of the objectives of selective credit control in the general credit field can be accomplished.

A second group of financial arrangements are the public subsidies of various kinds. The redirection of pre-war agricultural subsidies and development of still others suited to the special task of promoting short-run efficiency in agricultural production presents many problems not unlike those in the credit field. In fact, many of the subsidies have operated through credit channels. Others have represented direct grants to farmers. Still others have operated through purchases of farm products. To some extent no doubt these subsidies have become capitalized in land values. Redirection of subsidies, therefore, would be expected to encounter many of the same obstacles that are present when an attempt is made to change quickly the functions of credit institutions. But given the will to make subsidies an integral part of an agricultural war-production program, the technical problems of adapting them to the task is perhaps less complicated than that involved in redirecting an established credit system. The principal reason for this is that subsidies involve only the provision of funds,

services, or goods by a governmental agency. The principal problems in the use of subsidies, other than those relating to general standards that have their roots in the production problem in agriculture, relate to the ways in which subsidies can best be fitted in with other financial and nonfinancial measures to implement an efficient short-run production program. Subsidies that can be tied up with special credit operations include price-supporting loans with nonrecourse features, nonrecourse loans for production expenses, loan guarantees to protect lenders against loss and "lend leasing" of dairy cattle, expensive farm equipment and other kinds of expensive agricultural capital. Subsidies can be given also in connection with specialized risk-bearing arrangements that are not associated with loan operations. A price guarantee, a guarantee of out-of-pocket production expenses, and yield and income insurance are examples. Other subsidies can be tied to aggregate production, or to increases in production, in the form of so many cents per bushel or so many pounds of feed per 100 pounds of milk. An adaptation of depression surplus disposal subsidies involves purchases of needed products in the market at a price above the market and reselling these products at a lower price. In fact, the absolute limits to the variety of special production subsidies are set only by the limits on the direct or indirect economic contacts that the Federal Government has with farmers.

Many of the broader national problems that arise in the use of selective subsidies are similar to those that arise in the case of special credit services. Both tend to give rise to inflationary pressure on the market, as in fact they would be expected to do if they were to aid in retaining or shifting control over agricultural resources. Since the inflationary pressure of subsidies in certain parts of the market can be offset if it seems necessary by anti-inflationary taxation and savings programs that operate in other parts of the market or in the market as a whole, the inflationary aspect of subsidies need not be a serious problem in itself. The principal limitations on the use of subsidies to promote short-run efficiency in agricultural production lie in the difficulties in making them sufficiently selective to give incentives where they are needed without at the same time giving incentives where expansion of production is not desirable.

The principal financial policies that can be used to withdraw funds from the hands of farmers—taxation, debt collection, and sales of war bonds—are even more difficult to make selective than are the expansionary policies involved in credit and subsidy programs. Federal taxation has been given some selectivity in the case of corporate income taxes by permitting the amortization of war plants out of income over a 5-year period. Whether it would be feasible to adapt the same general principle to the taxation of farmers is open to question, especially in view of their large number and the difficulties in the way of setting up standards that could be made sufficiently selective to be of much value in the short run.

To make debt-collection policies selective, so that those that should not use their income to expand production would pay debts more rapidly, whereas others might make small or even no repayments, would face the obstacle of existing contractual relations between borrowers and lenders. Federal credit agencies can have some influence on debt-repayment policies of their own bor-

rowers, and educational programs can influence other borrowers and lenders to some extent. But contractual rights of existing borrowers from Federal agencies would stand in the way of a vigorous program of enforced acceleration of payments even for these borrowers. The problem of easing the repayment schedule for certain borrowers, however, presents less difficultly because enforced repayments to one lender could be offset if necessary by additional credit or subsidies from a special war-financing agency for agriculture.

War bond sales programs in rural areas can also give some selectivity to the rural savings program as a whole. Farmers with spendable funds but not in a position to make effective use of scarce resources presumably should be urged to save more than should farmers who are in a position to add substantially to the production of needed products by using their funds to finance expanded operations. So long as the food situation did not appear critical, it did not seem so necessary in the rural war-bond program to give the national interests in agricultural production a coordinate position along with the national interest in preventing inflation. Now that the food problem has become more critical, it might be feasible to introduce more selectivity into the setting of rural war-bond quotas. It is a question as to whether or not the results would justify the administrative trouble involved. Close cooperation between local war boards and local war-bond committees should result in some desirable selectivity. It might also be possible to obtain a rough kind of differentiation in bond sales by broader areas such as type-of-farming regions. If it is clearly recognized that the rural war-bond program has functional interrelations with the credit and subsidy phases of the agricultural production program, the ways probably can be found to give the war-bond program some selectivity in the interest of short-run efficiency in agricultural production.

When the financial institutions and policies that could be used to influence the direction of agricultural production are viewed as a group, the expansionary devices such as credit expansion and subsidies appear to lend themselves best to selective use. These devices can be associated directly with specific phases of the production program, whereas the devices such as taxation and savings programs must apply to much broader groups. The extent to which blanket anti-inflationary measures can be carried without endangering production depends in part on the extent to which highly selective expansionary financing devices can be utilized. As in the physical side of agricultural production, expediency plays a dominant part in the particular combination of financial devices to be used. And because it is easier to grant credit and subsidies than it is to tax and enforce savings, the proportions in which these two kinds of financial measures are compounded is likely to emphasize the expansionary measures. This gives added importance to desirable selectivity in these measures.

## IV

This paper has attempted to show the bearing of certain broad questions of wartime economic policy on specific questions of financial policy in relation to agriculture. The analysis indicates that students of wartime agricultural finance

policy can still make good use of the more conventional concepts and patterns of thought applicable to normal financing of agricultural production; but they must also be prepared to make extensive modifications of these thought patterns at some points in order to take account of the changed role of financial policy in a wartime agricultural economy operated within a framework involving more and different kinds of authoritative control than were used in World War I. What modifications are required is not a matter for sweeping generalizations. Specific financial measures must be considered in relation to the extent to which, in the field of agricultural policy as a whole, we decide to use particular kinds of direct controls as contrasted with more conventional ways of influencing the agricultural economy indirectly through the market. Overall agricultural policy in this respect has changed markedly as the war has progressed and probably will continue to change in the future.

To be of most help to these charged with responsibility for the administration of the wartime agricultural program, the student of agricultural finance must attempt to point out the interrelationship between both existing and possible new financial policies and the physical problems of combining existing agricultural resources to achieve the largest volume of needed agricultural production. He needs to recognize, moreover, that in the short run the best pattern of agricultural resource utilization may diverge widely at some points from what would normally be considered efficient agricultural production; also that the adaptations that can be made promptly in financial policy and institutional structures are limited by obstacles in the way of changing well-established financial arrangements. Because of the need for prompt changes in the production pattern, it may be necessary to use vigorous expansionary financing devices for the most part to achieve the desired redirection. Anti-inflationary policies, even though they can be only moderately selective in relation to production, still have the function of preventing a general upward spiral of prices. Success in making financial policy a highly efficient device for the redirection of a peace-time agricultural economy along the lines needed in total war will depend largely on ability to devise specific financial measures to achieve specific ends in the agricultural field without at the same time neutralizing the effects of other measures that must be taken in the agricultural field and elsewhere in the wartime economy.

# THE NEGRO AND UNIONISM IN THE BIRMINGHAM, ALA., IRON AND STEEL INDUSTRY[1]

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The iron and steel industry of the South is largely concentrated in and around Jefferson County, Alabama. In this area are found rich deposits of coal, iron ore, and limestone, conveniently located side by side; and here since 1870, has arisen the city of Birmingham, "the Pittsburgh of the South," as well as several smaller industrial towns within a sixty mile radius. This article is concerned with the relationship of Negro workers and organized labor in this region.[2]

Previous to 1937, unionism had not existed to any appreciable extent in the steel industry of Alabama. The changes that have taken place in industrial relations since then have been almost revolutionary. Especially significant has been the effect of these changes on the status of the colored steel workers. But before any attempt is made to discuss what steel unionism has meant to Negro workers, it will be necessary to describe, as a background for our main analysis, the Negro's position in the southern sector of the industry.[3]

## I

The steel industry depended upon an ever increasing supply of cheap labor during the early years of its expansion. In the great steel centers of the North, this need was met by the steady influx of European immigrants until the first World War. Then southern Negroes were imported. In the South, Negroes were used from the beginning, and during the years before 1910, they comprised between 40 and 50 per cent of the total working force there.

Table I shows the total laborers and operatives, and the number and proportion of Negroes, in blast furnaces and steel rolling mills, 1910–1930, for the entire country and for Alabama, as reported by the United States Census. The reader is cautioned to interpret these figures with care. The term "operative," as used by the Bureau of Census, covers all direct production workers except the most highly skilled and highly paid categories. A large majority of these top-flight workers not included as operatives are white. Moreover, skilled maintenance and indirect production workers, less than 2 per cent of whom are Negroes, are not classified as operatives. Hence the data presented in Table I

[1] This study owes much to an unpublished manuscript written by Dr. P. H. Norgren, assisted by the writer. In addition, Professor S. H. Slichter and Drs. J. T. Dunlop and J. Shister have contributed valuable suggestions.

[2] The reader will find this article clearer if he will consult my earlier study, "The Negro and the United Mine Workers of America," *Southern Economic Journal*, April 1943, pp. 313-26.

[3] As important as the Birmingham region is, it hires less than 5 per cent of all workers, and less than 15 per cent of the Negroes in the industry.

considerably overstate the proportion of Negroes in the industry.[4] Since, however, the sum of laborers and operatives comprise approximately two-thirds of the entire labor force in the industry, an examination of the data in Table I will tend to show the racial distribution of labor for the two decades before 1930.

Taking first the figures for the entire country, the most striking feature is the near tripling of the number of Negroes in the industry following 1910. This occurred after the supply of cheap European labor became unobtainable because of the first World War and the restrictive immigration laws, and employers recruited thousands of southern Negroes to supply the needs of the expanding industry.

In Alabama, Negro steel workers likewise were able to increase their share of jobs between 1910 and 1920, but unlike the situation in the country as a whole, these gains were of a temporary nature. By 1930 only 67.4 per cent of the laborers and operatives in Alabama's basic steel industry were colored, as compared with 77.3 per cent in 1920 and 72.4 per cent in 1910.

TABLE I

Total Laborers and Operatives, Number and Proportion of Negroes in Basic Iron and Steel Production for the United States and for Alabama, 1910–1930

| | United States | | | Alabama | | |
|---|---|---|---|---|---|---|
| | Total laborers & operatives | Negro laborers & operatives | Per cent Negro | Total laborers & operatives | Negro laborers & operatives | Per cent Negro |
| 1910 | 269,430* | 15,060 | 5.0 | 7,408 | 5,365 | 72.4 |
| 1920 | 352,457 | 47,898 | 13.6 | 12,897 | 9,981 | 77.3 |
| 1930 | 342,390 | 45,472 | 13.3 | 8,619 | 5,805 | 67.3 |

Source: U. S. Decennial Census of Occupations, 1910–1930.

* Approximate. National total available for laborers only. Figures included for operatives are totals for seventeen states, containing about 98 per cent of the country's blast furnaces, steel works, and rolling mills.

The losses in employment opportunities which Negroes suffered in Alabama during the 1920's were thus offset by gains elsewhere. The evidence indicates that the Alabama losses were mainly the result of the displacement of Negro hand workers by machines.[5]

During the 1930's, the proportion of Negroes in the iron and steel industry declined both in the country as a whole and in Alabama. In 1930, the Census reported that 8.5 per cent of the 620,894 workers in the country's blast furnaces

[4] E.g., in 1930, 41 per cent of the "gainfully occupied" workers in the basic iron and steel industry of Alabama were Negroes. This, however, is an *understatement* of the proportion of Negroes in the labor force, because the term "gainfully occupied" includes executive and professional employees, almost none of whom are Negroes.

[5] Thus the author of a field study made in the late 1920's reported: ". . . .multiple drills have taken the place of skilled [Negro] drillers at Ingalls [Iron Works Company]. In the Tennessee Coal and Iron Company, top felling, coke dryings, and puddling operations once performed by Negroes are now done by machines."—T. J. Woofter, Jr., *A Study of the Economic Status of the Negro*, (Mimeographed Report of the Institute for Research in the Social Sciences, University of North Carolina, 1930), p. 38.

and steel rolling mills were Negroes, whereas ten years later only 6.6 per cent of the workers so employed were colored.[6] For Alabama, the 1930 enumeration found that 41 per cent of the workers in the "iron and steel and their products" industry were colored; the 1940 count showed only 37 per cent to be Negroes.[7] Whether there has been any significant change in these proportions, either for the entire country, or for Alabama, as a result of the war expansion of the industry, is not known.

Of special significance for this study is the fact that the decrease in the proportion of Negro steel workers during the 'thirties seems to have been the result primarily of employer personnel policies which were adopted at a time when unionism was at most only a future threat to unrestricted management control. After a comprehensive study of labor conditions in the industry during the NRA period, Professor C. R. Daugherty stated that there was "general agreement that Negro workers had been laid off in disproportionate number. . . ."[8] This was partly the consequence of the fact that Negroes are concentrated in the least skilled, and hence, least indispensable jobs, and partly, because of favoritism of white workers in lay-offs. Many Negroes were so demoralized by these experiences that they were rendered unemployable. Others turned to unionism as a protection against unfair treatment. But since many employers had hired Negroes in the first place precisely because they were considered "bulwarks against outside labor organization," and since steel unionism remained weak throughout the NRA period,[9] the net result was more, rather than less, loss of employment opportunities for Negro steel workers.[10]

In Alabama, another reason for the loss of ground of Negroes was the attitude of employers, who, forced to raise wages under the NRA codes, preferred to hire whites rather than to increase the remuneration of Negroes.[11]

## II

Because the complex occupational structure of the steel industry affects both collective bargaining and the Negro-union relationship, a brief examination of the racial-occupational pattern in the industry is appropriate.

[6] The 1940 data are based upon a 5 per cent sample made by the Bureau of Census. Although the concept of "labor force" used by the 1940 census is not identical with that of "gainful workers" used in previous enumerations, there is no great difference. It is very likely that in most cases in 1930 people reported not their *usual* status but their *actual* status, and the latter is precisely the point stressed by the 1940 census.

[7] The figures for Alabama pertain not only to "basic iron and steel production," i.e., blast furnaces and steel rolling mills, but also to the "other iron and steel products" group. However, in Alabama, the proportion of Negroes in both sectors of the industry is about the same.

[8] C. R. Daugherty, M. G. deChazeau, and S. S. Stratton, *The Economics of the Iron and Steel Industry*, (New York: McGraw-Hill Book Co., 1937), p. 902, note 1.

[9] See below, pp. 34, 35. By discriminating against Negroes in layoffs, employers thus lost a formerly valuable ally with which to fight unionism, an act which scarcely seems as rationally determined as most economists assume business decisions are made.

[10] Daugherty, *op. cit.*, pp. 885, 891, 902, 939.

[11] *Ibid.*, p. 902. The attitude that a man cannot be worth a higher wage because his skin is black, is again hardly rational.

As in most other industries, Negroes were first employed in iron and steel mills as common laborers at low wages. And in the South, at the turn of the century, the colored labor clearly reflected the low pay. In 1907, an official of the Tennessee Coal and Iron Company, the largest operator in the Birmingham region, described his Negro employees as "shiftless, thriftless, sloppy, dirty . . . inefficient labor."[12]

After the U. S. Steel Corporation acquired the Tennessee Company that year, it set out by a comprehensive welfare and educational program to raise the standard of its Negro (and white) employees. It also promoted some of its Negro workers to semi-skilled and, occasionally, skilled production jobs. The result was a decided improvement in the efficiency of its employees, a sharp reduction in labor turnover, and a labor force with which unionism could make little headway.[13]

Other companies, both in the North and in the South, also advanced a sizable portion of their Negro employees to higher rungs in the occupational ladder, especially during the period of labor shortages which accompanied World War I. Nevertheless, even today, the majority of Negro iron and steel workers remain concentrated in unskilled jobs. A survey conducted by the United States Bureau of Labor Statistics in 1938, found that 49.2 per cent of the Negroes in the industry were unskilled, 38.3 per cent, semi-skilled, and only 12.5, skilled. The skill make-up of the Negro steel workers was approximately the same for the North as for the South. Comparison of these ratios with the corresponding percentages for whites reveals the much less favorable position of colored workers. In the South, only 11.1 per cent of the whites were unskilled, whereas 43.9 per cent were semi-skilled, and 45.0 per cent skilled. The skill composition of whites in the North was 23.6 per cent unskilled, 40.6 per cent semi-skilled, and 37.7 per cent skilled.[14]

The fact that less than 2 per cent of the skilled maintenance and indirect production workers in the industry are Negroes has already been mentioned.[15] This is of course, as typical of American industry as is the concentration of Negroes in common labor jobs, for the majority of occupations in this skilled group, e.g., pipe-fitting, electrical installation work, tool making, and many of the other metal crafts, are closed to Negroes in most industries.

There is, however, a decidedly unusual feature of the racial-occupational pattern of the steel industry. That is the comparatively high proportion of Negroes among the skilled production workers. Probably there is only one other skilled category in American manufacturing industry where Negroes have been able to secure a percentage of the work anywhere near to their normal proportion of jobs—that is, the proportion which all Negroes comprise of all

[12] Quoted in S. D. Spero and A. L. Harris, *The Black Worker*, (New York: Columbia University Press, 1931), p. 246.

[13] *Ibid.*, pp. 168, 247.

[14] "Earnings of Negro Workers in the Iron and Steel Industry, April 1938," *Monthly Labor Review*, LI (November 1940), 1144–46.

[15] See above, p. 27.

workers in the industry.[16] Thus whereas in 1930, 8.5 per cent of the labor force in the basic steel industry was colored, so were 6.5 per cent of the skilled production workers. Although the figures for Alabama are not complete, those that are available indicate that the situation there in this respect is similar to that for the country as the whole, but with the position of the Negroes somewhat less advantageous.[17]

The unusually high representation of Negroes in skilled production jobs is all the more remarkable when it is noted that the wages for this type of work usually exceed those paid for skilled maintenance and indirect production work, a classification in which few Negroes are found.[18] It is probably explainable, at least in part, by the fact that production workers learn their trade by serving as helpers to skilled men on the job. Despite some discrimination, Negroes so employed have been promoted, especially in time of labor shortages. On the other hand maintenance men are recruited from the outside, and the training opportunities for Negroes in these crafts are quite limited. Also, excessive heat, dirt, and noxious gases make some skilled production jobs quite unpleasant. This may influence white workers, with opportunities for employment elsewhere far greater than Negroes possess, to prefer more pleasant, if less remunerative, work.

There is no other feature of the occupational pattern in the steel industry to which attention should be directed. That is the unusually wide differential between common laborers' earnings and those of skilled production workers. According to the aforementioned Bureau of Labor Statistics survey, heaters and rollers in bar mills in the South earned an average of \$.89 to \$1.54 per hour, respectively, and common laborers in the same branch of industry, but \$.44.[19] The present writer knows of no other major branch of manufacturing in which the gap between the best paid and poorest paid jobs is as great as it is in the iron and steel industry.

With this brief review of the Negro's position in the steel industry as a background, we turn now to the main subject of our discussion, the Negro and steel unionism in the Birmingham area.

[16] The other skilled category is iron molding. Dr. Norgren notes (MS, *loc. cit.*) that this is "a trade which has three important points of similarity with steel mill work, namely, excessive heat, dirt, and noxious gases." My debt to Dr. Norgren is particularly great in this section of the article.

[17] In Alabama where approximately 41 per cent of the steel workers were colored in 1930, 38.9 per cent of the furnacemen, smeltermen, and heaters were Negroes that same year. Rollers and roll hands, the other of the principal top production jobs, were not classified separately for Alabama by the 1930 census. Since far fewer Negroes are found in this group than in the other three, the percentage of Negroes in skilled production work would actually be considerably less than 38 per cent, but nonetheless, a significantly high figure. The data used are from the 1930 census. Unfortunately, 1940 figures are not as yet available.

[18] E.g., in its 1938 survey, the Bureau of Labor Statistics found heaters and rollers in bar mills in the South to be averaging \$.89 and \$1.54 per hour, respectively, and machinists and carpenters, but \$.83, and \$.63.

[19] "Earnings and Hours in the Iron and Steel Industry April 1938," *Monthly Labor Review*, LI (September 1940), 718, 725.

III

Trade unionism in the iron and steel industry dates as far back as 1858, when a group of Pittsburgh iron puddlers founded the Sons of Vulcan. Other groups in the industry also organized unions of their crafts, and in 1876 these joined forces as the Amalgamated Association of Iron, Steel, and Tin Workers.[20]

The Amalgamated enjoyed a fair degree of success until the late 1880's. Then it suffered a number of set-backs until 1909 when it was completely eliminated from the plants of the United States Steel Corporation. For the ensuing quarter of a century unionism was not an important force in the industry, except in the tin mills of the Middle West, where the bulk of the Amalgamated's membership was located after 1910.[21]

In the Birmingham area, organizations of iron workers existed as early as the days of the Sons of Vulcan. The Amalgamated had agreements covering some of the plants of the Tennessee Coal and Iron Company up until 1902 when a series of strikes were lost. In 1907 the Tennessee Company was acquired by the United States Steel Corporation, and two years later, the other steel companies followed the lead of the Corporation in eliminating unionism from the Birmingham region.[22]

During these early years, the Amalgamated was quite hostile to the idea of organizing Negroes. Its policies were dominated by the highly skilled workers, the former members of the Sons of Vulcan, a union which had barred Negroes by constitutional provision.[23] Although the Amalgamated did not incorporate a like clause in its constitution, it refused to go on record as favoring the organization of Negroes until 1881, despite some experience with Negro strikebreakers before that date. For some time thereafter, it favored placing Negroes into separate local unions.[24]

In Birmingham, the Amalgamated made little or no effort to organize the Negro workers. The early agreement with the Tennessee Company covered only the skilled workers, who were all white. No effort was made to organize the Republic Steel Company's plant at nearby East Thomas because "too many Negroes" were employed there.[25] In 1906 a union delegation unsuccessfully endeavored to settle a strike if the mill superintendent would "discharge all niggers." In several instances, white steel workers refused to work with Negro union members, but the Amalgamated's officers took no effective measures to protect their colored members from such discrimination.[26]

[20] R. R. R. Brooks, *As Steel Goes. . .* , (New Haven: Yale University Press, 1940), pp. 21–22.

[21] *Ibid.*, pp. 25–45. A significant exception was in 1919, when 350,000 steel workers struck in a vain effort to force recognition and end the twelve-hour day.

[22] Horace B. Davis, *Labor and Steel*, (New York: International Publishers, 1933), pp. 231–232.

[23] Spero and Harris, *op. cit.*, p. 239.

[24] Jesse S. Robinson, *The Amalgamated Association of Iron, Steel and Tin Workers*, (Baltimore: Johns Hopkins University Press, 1920), pp. 46–47.

[25] Davis, *op. cit.*, p. 233.

[26] Spero and Harris, *op. cit.*, pp. 252–253.

The failure of the Amalgamated to organize the Negro steel workers on an equalitarian basis was but one aspect of the limited craft outlook of the union. Although it had jurisdiction of nearly all steel workers, its interests did not extend far beyond the top production men. The failure of the leaders of the Amalgamated to understand the importance of technical changes which were destroying skills and permitting the use of rapidly increasing numbers of unskilled immigrant and Negro laborers, alienated an ever-growing percentage of the nation's steel workers, and materially assisted the steel interests in maintaining their non-union labor policy.[27]

In 1918 a second attempt was made to organize the Birmingham steel industry, this time by the metal trades unions of the AF of L. Because the larger unions in this group do not admit Negroes,[28] and because Negroes were then, as now, too important a factor in this sector to be overlooked if a union drive was to be successful, the Mine, Mill, and Smelter Workers' Union was assigned the task of organizing the miscellaneous employees, white and black, in the iron ore mines, blast furnaces, and steel mills.[29]

Refused recognition by the steel companies, the metal trades unions called a strike. Although large numbers of both white and black workers responded, the walkout soon lost its effectiveness. The employers fought the unions by playing up the race issue. A program of intimidation and violence, directed principally against striking Negroes, was instituted. The consequence was that the colored workers were frightened into returning to work at an early date, and soon thereafter the strike was called off without any concessions being granted to the steel workers.[30]

Because of the failure of the metal trades strike, Birmingham was virtually unaffected by the great nation wide steel strike of 1919.[31] The Negro workers there had been so thoroughly intimidated during the 1918 stoppage that they refused to leave their jobs when the strike call came. There was no recurrence of steel unionism in Alabama until 1933.

With the advent of the NRA, the Amalgamated became active in Birmingham area, as elsewhere, but its organizing attempts met with little success. The steel companies sponsored company unions and discriminated against the Amalgamated's members, so that by mid-1934, the outside union had lost most of its recruits.

[27] Brooks, *op. cit.*, pp. 31–32.

[28] E.g., the Machinists and the Boilermakers and Shipbuilders exclude Negroes from full membership by provisions in their respective rituals, and the Electrical Workers and the Plumbers and Steamfitters generally do likewise by tacit consent.

[29] Spero and Harris, *op. cit.*, p. 248. The Mine, Mill, and Smelter Workers' Union is the direct descendant of the Western Federation of Miners which was once the main force in the IWW. Later it left the IWW and joined the AF of L. In 1935 it became one of the charter members of the CIO. It has usually organized Negroes on an equalitarian basis. See below, pp. 34, 35.

[30] Spero and Harris, *op. cit.*, pp. 248–249.

[31] *Ibid.*, p. 249. Some 350,000 workers took part in this four-months strike which affected nearly every steel center but Birmingham. The strikers were completely defeated, and the importation of thousands of Negro strikebreakers contributed no little to this result.

A few other unions also were active in the Birmingham steel industry at this time. Federal locals, directly affiliated with the AF of L, were organized in four shops making cast iron pipe. By the summer of 1934, three of these locals had signed collective agreements with their employers.

The Mine, Mill, and Smelter Workers again entered the field and had fairly good success in organizing the ore miners. It also organized most of the employees of Republic Steel's East Thomas blast furnace, and won an employee representation election conducted by the Atlanta Regional (NRA) Labor Board. But the Board was unable to enforce its order, and the local union was defeated in an attempt to win compliance by a strike.

The failure of the strike at East Thomas disillusioned many Birmingham steel workers with government protection of labor's right to bargain collectively through representatives of their own choosing under the NRA. It had a powerful effect in deterring other steel workers from joining unions, or if they had already enrolled, from continuing to participate actively.[32]

Although unionism failed, for the most part, to gain a permanent foothold in the Birmingham steel industry, there can be little doubt but that the racial policies pursued by the various organizations aided immensely the future progress of organized labor in the area. To be sure, throughout the NRA period, the national officers of the Amalgamated remained indifferent towards organizing Negroes. But in Birmingham, the regional officers of this union, and the leaders of the Federal locals and the Mine, Mill, and Smelter Workers made a determined effort to enroll Negroes, and in several cases, had considerable success.[33]

As is not unusual in the South, many company officials and their protagonists brought the race issue to the fore in an effort to divide the workers and thus defeat their attempts to organize. Small towns passed ordinances forbidding mixed meetings; Negroes were told that they would not "get anywhere in a white man's union"; and whites were informed that they were granting Negroes "social equality" if they joined unions to which colored workers were admitted on an equal basis.[34]

In view of the opposition of the steel concerns, the past history of hostility between the races, and the inexperience of the workers with unions, the degree of interracial cooperation achieved during the NRA period was impressive. Perhaps if the union leaders had been more experienced, if they had had more resources at their command, and if the decisions of the NRA labor boards had been enforceable, steel unionism might have obtained a permanent place in Birmingham in 1933. As it was, it did bring white and black steel workers together for the first time and thus paved the way for a new union campaign which was not handicapped as was the one in 1933—the drive of the CIO's Steel Workers Organizing Committee, now the United Steelworkers of America.

[32] H. R. Cayton and G. S. Mitchell, *Black Workers and the New Unions*, (Chapel Hill: University of North Carolina Press, 1939), pp. 324–325, 332–335.

[33] *Ibid.*, pp. 151–160, 189, 334–335, 338. Also Daugherty, *op. cit.*, pp. 950–957.

[34] Cayton and Mitchell, *op. cit.*, pp. 339, 358–359; Daugherty, *op. cit.*, p. 992.

IV

In June 1936, the heads of the CIO succeeded in persuading the leaders of the then bankrupt and dissention-torn Amalgamated to sign an agreement which gave the SWOC complete charge of a campaign to organize the steel industry, as well as exclusive jurisdiction over all newly organized workers. One month later the SWOC opened its drive.

The SWOC campaign was so carefully planned and so brilliantly executed that by January 1937 it was apparent that, if a strike was resorted to, the main plants of United States Steel would be closed. Fortunately, this was unnecessary. An agreement between the Corporation and the CIO was reached in February 1937, and one month later, it was embodied in contracts signed between the SWOC and the various subsidiaries of the Corporation, including the Tennessee Company in Birmingham.[35] The "Little Steel" companies were able to stave off official recognition until 1942, but then they too signed with the steel workers' union, after the latter's series of victories in NLRB elections, and after a directive from the National War Labor Board.[36]

At the time of the first SWOC-U. S. Steel agreement, organization of the Tennessee Company lagged behind that at other subsidiaries of the Corporation. The SWOC leaders expected this. They assigned their best organizers to the huge Carnegie-Illinois Company, figuring correctly, that if the biggest fell into line, the rest would follow. When, however, membership at the Tennessee Company continued to lag, union officials were forced to send a large force of organizers to Birmingham in 1941–42 before they dared request NLRB elections to obtain sole bargaining rights—rights which had already been won in most other properties of U. S. Steel as a result of NLRB election victories. The overwhelming victories of the union in the series of elections beginning in December 1942, indicate that at last steel unionism has won a secure place in Birmingham.[37]

The first U. S. Steel compact did mean, however, the establishment of unionism in the Birmingham steel industry. Once the Tennessee Company recognized the SWOC, most of the smaller concerns did likewise. Today, the United Steelworkers of America, successor to the SWOC, is recognized not only by most of

[35] Frederick H. Harbison, "Steel", in H. A. Millis, *et al.*, *How Collective Bargaining Works*, (New York: Twentieth Century Fund, 1942), pp. 510–525.

[36] *Ibid.*, pp. 524–534; and *Steel Labor*, July and August, 1942. The so-called "Little Steel" companies include Jones & Laughlin, Wheeling, Crucible, Bethlehem, Youngstown, Inland, National, and American Rolling Mill. The first three signed contracts in 1937, J. & L., after a brief strike. A strike against Republic, Youngstown, Inland and one plant of Bethlehem failed in 1937, but the union recovered and today has all but a few plants of American and the main plant of National under contract.

[37] Harbison, *op. cit.*, pp. 517–520; SWOC, *Proceedings of the First Wage and Policy Convention*, (1937), p. 59; USA-CIO, *Daily Proceedings of the First Constitutional Convention*, (1942), second day, p. 17. The original U. S. Steel contract gave the union bargaining rights for its members only.

the iron and steel companies in Alabama, but by many foundries, pipe shops, fabricating concerns, and cement and slag plants as well.[38]

V

One of the most important reasons for the success of the USA-CIO in Alabama has been its ability to organize the Negro workers with a minimum of friction. From the start of the SWOC campaign, the union leaders realized that colored workers must be brought in to insure the success of their campaign, and that if they were organized, special steps must be taken to assure them fair and equal treatment.[39]

In accomplishing this task, the CIO union had several advantages which the Amalgamated Association had lacked. For one thing, the fact that the top SWOC leaders and many organizers of both races were recruited from the United Mine Workers aided materially in convincing the Negro steel workers that the new steel union would make a real effort to accord them equal treatment, as the UMW officials had done for many years.[40]

Another advantage which the SWOC enjoyed over the Amalgamated was the valuable experience which white and black steel workers had received in understanding each other's problems during the attempts at organization in the NRA period.

A third factor which contributed to the success of the SWOC's attempts to organize Negro and white workers was the fact that the decisions of the National Labor Relations Board, unlike those of its NRA predecessors, were enforceable in the courts. The reinstatement of a colored steel worker who had been discharged for union activity, has frequently been the signal for large numbers of Negroes to cast aside their fear of "offending the boss" and to join the union.[41]

Yet all these advantages would have been without significance had not the SWOC leaders utilized them to the full and endeavored to achieve genuine equalitarianism in their organizing efforts. That they succeeded is revealed by the fact, attested to by informants of both races, that, in general, Negroes joined the union as readily as did whites.[42]

[38] The USA-CIO has encountered the most opposition in the Birmingham area in two plants of the Republic Steel Corporation, a "Little Steel" concern. At the East Thomas plant, the scene of the unsuccessful strike in 1933, the workers stayed away from unionism until it was announced by Republic officials that they would sign a union agreement. Most of the workers then joined and the plant was included in the USA-CIO-Republic master agreement. Even less success was evident at the Gadsden plant, located in a city which has an unenviable record for vigilantism. There the USA-CIO was not designated sole bargaining agent until March 1943.

[39] Harbison, *op. cit.*, p. 518.

[40] The reader is again urged to consult my earlier article, "The Negro and the United Mine Workers of America," *loc. cit.*

[41] Especially was this the case at the East Thomas plant of Republic Steel. After being disillusioned by the 1933 strike failure, the Negro workers there avoided unionism till the management was forced by the courts to obey NLRB orders. Then they signed up in droves.

[42] Republic's Negro employees were an exception, but in view of the failure of the 1933 strike at East Thomas and the special forms of "persuasion" reserved largely for Negroes

When the time came to establish local "lodges," the steel union leaders followed the practice which the United Mine Workers had initiated in 1933. Locals were encouraged to elect a white president and a Negro vice-president. This allowed Negro recognition on the executive councils of locals, but avoided unnecessary friction in union-management relation since the local president handles much of the negotiating. Such an arrangement was also in line with the policy of gradualism which steel union leaders have generally espoused when organizing mixed unions or otherwise running counter to previously established customs in the South.

One of the outstanding gains which unionism has brought to steel works is grievance machinery for appeal from the decisions of foremen or other persons in executive positions. Traditionally the underdog, concentrated in unskilled jobs where his place can easily be filled, and confronted by nominal superiors of another race, Negro steel workers in the Birmingham area (as in all parts of the country) have found that the union has provided them with the first real means of protection against unfair and arbitrary treatment. Moreover, representation upon grievance committees has taught the Negro worker how to stand up for his rights and how to express himself. The importance of this practical education cannot be overstressed. To Negroes in the Alabama mills, who by virtue of their disadvantaged social status, have had to accept the treatment accorded to them without protest, this may indeed prove to be the most important and valuable aspect of unionism in steel.

## VI

The national leaders of the United Steelworkers have, then, adhered closely to a policy of racial equalitarianism based upon the experience of the United Mine Workers. As in the case of the coal mines, it has already begun to show results. The white workers have begun to recognize the Negroes as an integral part of the union's membership and to accept them as such without the reluctance and embarrassment which characterized their attitude at first. For their part, the Negroes have, to a considerable extent, overcome their hesitancy and suspicion. They now take an active role in the discussions at union meetings and in the general business of the locals.

The application of the "miners' formula" to the Birmingham steel industry, however, has not achieved the same degree of success that it has in and around the nearby coal mines. Several factors have made the problems of racial adjustment within a union somewhat different, and in many aspects, more difficult in the steel industry than in coal mining.

First of all, Alabama coal miners have had more experience both with collective bargaining and with mixed unions than have the state's steel workers.

at Gadsden, this is no surprise. Some idea of how personnel matters relating to Negroes have been handled at the latter plant may be gathered from the quaint remarks of a minor official: "There are two kinds of niggers: country niggers and city niggers. Country niggers won't be cussed at; they walk away. City niggers expect and like to be cussed at. We have city niggers here."—Interview, Gadsden, Ala., May 22, 1940.

The miners were effectively unionized almost four years before the steel workers, and today the UMW has union shop agreements covering almost all of Alabama's coal miners, whereas the USA-CIO has not advanced far beyond the organization stage in its dealing with much of steel management. Hence the coal miners have been able to achieve a greater degree of solidarity in their local unions than the steel workers, who until just recently had to devote much effort to organizational activities.

In the second place, interracial cooperation in steel unionism is complicated by the width of the wage differential between the unskilled and skilled work. In steel, skilled production men frequently earn upwards of $25 per day while common laborers receive as low as $4 for a like period. In the coal mines, however, the top wages rarely rise far above $10, and the lowest rarely fall below $4, per day. This wide differential in steel has made it more difficult to build an effective union. The unusually high earnings of the skilled production workers tend to make them less solidarity-conscious and less interested in being a part of a closely knit organization of all workers in the plant or the industry than if the wage gap were smaller. When, as in Alabama, the skilled occupations are manned principally by whites and the bulk of the lowest paid workers are Negroes, this tendency is likely to be more pronounced.

In addition, the highly paid workers may be expected to object to any attempts on the part of the numerically superior lower paid workers to decrease the wage differential by collective bargaining. For such a move would decrease the proportion of the wages received by the skilled in favor of the unskilled. And because of the concentration of the Negroes in the unskilled brackets, the question of race would again introduce a complicating factor.

A third reason which makes mixed unionism more difficult in steel than in coal is the far greater importance of job segregation in the former industry. Whereas Negroes and whites generally work side by side and at the same occupations in coal mines where both races are employed, it is not exceptional to find steel mills with all white sections, particularly in the maintenance departments. If the leaders of the USA-CIO should attempt to assist qualified Negroes to gain employment in "lily-white" departments, the skilled maintenance men, 98 per cent of whom are white, may be expected to object strenuously. Many of the skilled maintenance men are quite craft conscious, adding to the problems of the industrial union. Once more, the injection of the race question complicates an already serious situation from the union's point of view.[43]

The race problem also complicates the decisions as to how jobs should be allocated through collective action. The general principle adhered to by the USA-CIO, as by many other unions, is that seniority of tenure shall be the

[43] Typical of the unrest of the skilled maintenance workers in the steel industry have been the unsuccessful attempts of electricians and machinists employed by the Tennessee Company, to "carve out" separate bargaining units by joining their respective AF of L unions. USA-CIO leaders attribute this unrest not to craft consciousness, but to the claim that maintenance men are underpaid as compared to the production men, an inheritance from non-union days which the USA-CIO has not as yet been able to remedy fully.

governing criterion. But it makes no difference for the purpose of this discussion what the criterion is, so long as it is applied without discrimination.

It is not likely that the application of racial equality to lay-offs and re-hirings will cause very serious difficulties. The fairness of such action is much too obvious.

On the other hand, one would expect that when the issue of literal application of the equalitarian policy to seniority in promotion arose, objections would be forthcoming from the white workers. Because few Negroes have been promoted to the better paying jobs in the past, white workers have come to regard white priority on promotions as a part of the established order of things. At the same time, Negro workers may justly claim that if the principle of equal treatment is to have any real meaning, it must be applied to this, as well as to other, aspects of the collective agreement.

In Birmingham, there are indications that the seniority promotion problem has already begun to cause the steel-workers' union difficulties. It has been the practice of many of the companies there to reserve most of the jobs from which promotions occur for whites, and to concentrate Negroes in "blind alley" occupations. The writer's field work, conducted during the summers of 1940 and 1941, gave him the impression that there has been no great change since the advent of unionism. It was such a situation which caused the SWOC to lose bargaining rights at two Birmingham plants of the Ingalls Iron Works Company to an AF of L rival in the summer of 1940.

A majority of the 500 workers employed in these plants at that time were Negroes. In 1937, the SWOC negotiated an agreement with the Ingalls Company, recognizing it as bargaining agent for its members employed there. In the ensuing three years, Ingalls' Negro employees attempted in vain to raise their occupational status above that of helper. Then the Bridge, Structural, and Ornamental Iron Workers of the AF of L promised to press for a re-classification of the jobs done by helpers, a general upgrading without regard to race, and the opening of the plant's apprentice-training system to Negroes. The colored workers accepted the offer and transferred to the AF of L union in a body. After uncontested NLRB elections were won by the latter, the promises to the Negroes were fulfilled.[44]

The case of the Ingalls Company must not be taken as an indication of a trend. In few plants are Negroes in a position to swing an NLRB election. Even if they could do so, it is very unlikely that many Negro steel workers could consider leaving the USA-CIO. The contribution which this union has brought Negroes in the form of wage increases, improvement of working conditions, job security, grievance machinery, and protection of civil liberties are impressive and far outweigh in their minds the promises of rival unions. But the events at Ingalls do indicate the basis for a serious racial cleavage within the ranks of the USA-CIO.

Because the seniority promotion problem is too complex to be ironed out

[44] *In the matter of the Ingalls Iron Works Company*, 25 NLRB 1306; 27 NLRB 233; 29 NLRB 156. Also Robert C. Weaver, "Racial Employment Trends in National Defense," *Phylon*, II (Fourth Quarter 1941), 358; and "The Negro's War," *Fortune*, XXV (June 1942), 157–158.

within the local unions, the regional and national officers must lead the way in solving it. They seem to have recognized their responsibility. The 1942 USA-CIO convention unanimously endorsed a vigorous resolution pledging the union "to fight to secure equality of treatment for all workers, Negro and White, and all races and creeds *in industrial employment and promotion, in vocational training*, in union leadership and service in government and in the armed forces."[45] In September 1942, Philip Murray, president of the USA-CIO, appointed a Negro, Boyd Wilson, as his personal representative assigned "to look into, survey, and assist . . . in the solution of any problems which arise in connection with colored members and potential members. . . ."[46]

Such measures have not been without result. In the North, according to information reaching the writer, seniority clauses in USA-CIO contracts have resulted in the upgrading of many Negroes to top production jobs in plants where it was not unusual for them to be jumped over in promotions.[47] If the non-discriminatory application of seniority in promotions can be made the general rule in the North, it does not seem too much to expect that in the South it will gradually meet with less opposition from white workers and management. And if the day comes when race is no longer a factor of consequence in selecting candidates for promotion in industry, equalitarian unionism will have met its acid test.[48]

[45] *Steel Labor*, May 1942. Italics added.

[46] *Steel Labor*, September 1942.

[47] This statement is based upon a few interviews with union and management officials, and with representatives of Negro organizations. Before any statement can be made as to the extent of the effect of union seniority contractual clauses, a detailed field study must be conducted in the principal steel centers of the North. This has not as yet been done.

[48] Throughout this article, the writer has stressed the economic and practical considerations which influenced the steel workers' union to adopt an equalitarian policy. But it should also be noted that, although these are undoubtedly of primary importance, the union officials who made these decisions are philosophically of a different nature than, for example, the officials of the old Amalgamated Association of Iron, Steel, and Tin Workers. For a general analysis of this question, see the writer's article, "Organized Labor and Negro Workers," *Journal of Political Economy*, June 1943.

# SHOULD FEDERAL DEPOSIT INSURNACE BE EXTENDED?

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The question of whether or not federal deposit insurance should be extended requires an examination into the number of banks included under the fund, as well as the coverage of deposits in such banks. The provisions regarding FDIC membership have been complicated by a persistent effort on the part of advocates of unified banking to employ federal deposit insurance as a means of forcing non-member banks into the Federal Reserve System. The insurance coverage provisions have been founded on the desire to protect the largest number of depositors with the least possible risk to the insurance corporation. Because of the calamity hazard inherent in commercial banking, and in view of the pressure to keep insurance assessments at a minimum, the drafters of federal deposit insurance decided that it was necessary to place a limit on the coverage. There was also the hope that with partial coverage large depositors would act as a restraining influence upon reckless or unsound bankers. It is for these reasons that the existing law insures bank deposits up to $5,000 only.

## I

The main issue in connection with membership in the FDIC was over the status of banks which are not members of the Federal Reserve System. The Banking Act of 1933 allowed non-member banks to enter the insurance fund, but they were required to apply for membership in the System before July 1, 1936 or lose their insurance privileges.[1] These terms, which were advocated by Senator Carter Glass and other Senate leaders, were accepted by the House conferees only in order to get the bill passed.[2] Federal Reserve members became insured banks automatically, but non-members were required to pass an examination conducted by the FDIC.[3]

The compulsory Federal Reserve membership requirement was postponed until July 1, 1937 by provisions of the act of June 16, 1934 which extended for one year the life of the temporary fund.[4] This postponement was the first step in a series of moves engineered by House supporters of state non-member banks to eliminate the compulsory Federal Reserve membership requirement. During the hearings on H.R. 5357 (The Banking Act of 1935) there was much discussion upon the requirement. Largely as a result of Chairman Leo T. Crowley's testi-

[1] Public No. 66, 73rd Cong., Sec. 12 B (f).

[2] Compulsory Federal Reserve membership was a concession made by Representative Steagall and other House supporters of the state banks in order to secure Senate approval of the deposit insurance principle. There was tacit agreement on the part of the House conferees that the Federal Reserve membership requirement would never be applied. Cf. *Hearings before the Committee on Banking and Currency*, H.R., 74th Cong., 1st Sess., on H.R. 5357, p. 116, statement of Representative Steagall.

[3] Public No. 66, Section 12 B (y).

[4] Public No. 362, 73rd Cong.

mony that it would bring about the destruction of from 2,000 to 3,000 state banks which could not meet the conditions for membership in the Reserve System the Senate agreed to a recommendation of FDIC officials that only banks with average deposits of $1,000,000 or over be forced to join the System in order to retain deposit insurance.[5] This limit was considered satisfactory by FDIC and Senate leaders because it would avoid the danger of ruining countless small non-member banks, and at the same time it would force banks holding a majority of the deposits outside the Federal Reserve System to join the System. It was originally planned that this requirement should go into effect on July 1, 1937. In conference, however, the House leaders were instrumental in postponing the time limit to July 1, 1942. Even this has been abandoned. By an act of June 20, 1939 Congress repealed the provision.[6] At the present time all commercial banks, regardless of membership in the Reserve System, are permitted to participate in federal deposit insurance.

The Banking Act of 1933 permitted mutual savings banks to become members of the insurance fund.[7] Under both the temporary and permanent plans, however, mutuals were treated in exactly the same manner as commercial banks. In no way was the superior insurance risk of mutuals taken into consideration. From the viewpoint of ultimate membership of mutuals in the FDIC, this oversight proved most unfortunate.

Mutual savings bank representatives were undecided at first as to whether or not they should join the FDIC. It quickly became apparent that they would not hesitate to become insured banks if they were to be assessed only according to their own loss record.[8] Spokesmen for the mutuals pointed out that in contrast to commercial banks, mutuals were non-profit institutions representing the pooled savings of many millions of poor people.[9] It was contended that although the maximum deposit of mutuals was limited in most states to a relatively small amount, they were asked to contribute to a fund guaranteeing deposits for far larger size. It was further argued that mutuals do an entirely different business and constitute a different kind of risk inasmuch as the unsecured loan is practically unknown in savings banks.

In spite of a general conviction that the mutuals were receiving unfair treatment, representatives of the mutuals deemed it advisable to join the temporary fund in order to avoid the risk of being placed at a competitive disadvantage with insured commercial banks.[10] As a result, a majority of the mutuals decided to join the temporary fund. On January 1, 1934 there were 214 insured

[5] Cf. *Hearings on H.R. 5357*, pp. 121–122.

[6] Public No. 135, 76th Cong.

[7] Public No. 66, 73rd Cong., Section 12 B (f) and (y).

[8] "Guaranty of Savings Deposits: Shall Mutual Savings Banks Join the Federal Plan or Have Own System?", *United States Investor*, June 24, 1933, p. 2.

[9] Cf. statement of A. A. Berle, *New York Times*, October 21, 1933, 14:6. Also cf. A. A. Berle, "Savings Banks and Deposit Insurance", *United States Investor*, October 28, 1933, pp. 13–14.

[10] It was feared that deposits of uninsured mutuals which were paying the same interest as the time deposits of insured commercial banks would tend to flow out of the mutuals.

mutuals with $6,376 million of deposits, of which $4,429 million in about nine million accounts were insured.[11] This may be compared with a total of 577 mutuals at that time with deposits amounting to $9,723 million in about thirteen million accounts.

For a majority of the mutuals membership in the temporary federal deposit insurance fund was quickly terminated as soon as independent state deposit insurance funds for mutuals were established. On February 21, 1934 the Governor of Massachusetts signed a bill giving the Mutual Savings Central Fund, Inc. the right to assess each member bank one per cent of its deposits to establish a fund for deposit insurance.[12] A short time later the New York legislature enacted a law which established a separate fund for its mutuals.[13] In view of the action taken by the Massachusetts and New York legislatures it is not surprising that 169 mutual savings banks with total deposits of $5,436 million withdrew from the temporary fund at the end of June, 1934.[14] As of December 31, 1934 mutual savings banks which were insured by the FDIC held 11 per cent of the deposits of all mutual savings banks in the United States.[15] Of the remaining

TABLE 1

INSURANCE OF DEPOSITS IN MUTUAL SAVINGS BANKS, DECEMBER 31, 1934[16]

| | NUMBER OF BANKS | TOTAL DEPOSITS (IN MILLIONS OF DOLLARS) | PERCENTAGE OF TOTAL DEPOSITS |
|---|---|---|---|
| Insured by the Federal Deposit Insurance Corporation | 68 | 1,045 | 10.8 |
| Members of the Savings Bank Trust Company of New York | 135 | 4,648 | 47.7 |
| Members of the Mutual Savings Central Fund, Inc. of Massachusetts | 193 | 2,052 | 21.1 |
| All other mutual savings banks | 178 | 1,990 | 20.4 |
| Total | 574 | 9,735 | 100.0 |

506 mutuals, 328 were members of state funds in Massachusetts and New York. Those banks held 69 per cent of the deposits of all mutuals. The figures are given in Table 1.

Despite subsequent concessions made to mutuals in the federal deposit insurance provisions,[17] there has been little inclination on the part of mutuals to rejoin

[11] *Annual Report of the FDIC*, 1934, pp. 64 ff.

[12] For the details of this plan, cf. P. A. Benson, "Mutual Savings Insurance Funds," *American Bankers' Journal*, August, 1934, pp. 46 and 48.

[13] Cf. *ibid*, pp. 18 ff.

[14] *Annual Report of the FDIC*, 1934, p. 66, Table 25.

[15] *Ibid.*, pp. 66 ff.

[16] *Loc. cit.*, Table 25.

[17] In the act which extended the life of the temporary fund from July 1, 1934 to July 1, 1935 insurance coverage was increased to $5,000, with assessments upon the first $5,000 only. The mutuals were exempted from this provision in that they were required to pay assessments on the first $2,500 only, and insurance coverage for depositors in mutuals was placed at $2,500. Cf. Public No. 362, 73rd Cong., Sec. (6). The act also provided for the

the FDIC. On December 31, 1940 only 53 of the 551 mutual savings banks in the country were FDIC members.[18] These banks held deposits of $1.8 billion, amounting to 17 per cent of the $10.7 billion of deposits in all mutual savings banks.[19]

When federal deposit insurance became effective on January 1, 1934, 13,201 banks were insured or approved for insurance under the temporary plan.[20] On December 31, 1940 the number of insured banks was 13,495, a net increase of 294 banks over the seven-year period.[21] At this time 93.3 per cent of commercial banks and 9.6 per cent of mutual savings banks were insured with the corporation.[22] Figures are shown in Table 2.

TABLE 2

NUMBER OF INSURED BANKS, DECEMBER 31, 1940 AND JANUARY 1, 1934[23]

| | NUMBER OF INSURED BANKS | | | PERCENT OF LICENSED BANKS INSURED | |
|---|---|---|---|---|---|
| | Dec. 31, 1940 | Jan. 1, 1934 | Change | Dec. 31, 1940 | Jan. 1, 1934 |
| Total | 13,495 | 13,201 | +294 | 90.3 | 87 |
| Commercial Banks | 13,442 | 12,987 | +455 | 93.3 | 89 |
| Members F. R. System | | | | | |
| National | 5,144 | 5,153 | −9 | 100 | 100 |
| State | 1,342 | 856 | +486 | 100 | 100 |
| Not members of F. R. System | 6,956 | 6,978 | −22 | 88 | 82 |
| Mutual Savings Banks | 53 | 214 | −161 | 9.6 | 37 |

## II

The problem of coverage has been the subject of some of the warmest arguments upon federal deposit insurance. Two main questions have been raised; namely, what types of bank deposits are to be insured, and what portion of deposits is to be covered.

From the very beginning there has been strong opposition to insurance of

establishment of a "Fund for Mutuals" which was to be separate from the regular fund and was to be reserved solely for the protection of mutual savings banks. The Fund for Mutuals was retained in the Banking Act of 1935. Cf. Public No. 305, 74th Cong., section 12 B (L) (1).

[18] *Annual Report of the FDIC*, 1940, p. 56.

[19] Figures showing the present membership of mutuals in the New York and Massachusetts funds are not available. There has been no decline in the importance of the state funds, however.

[20] *Annual Report of the FDIC*, 1939, p. 22.

[21] *Annual Report of the FDIC*, 1940, p. 92.

[22] Insured commercial banks held 97 per cent of all commercial bank deposits. Cf. *ibid.*, p. 37.

[23] This table is drawn up from figures taken from the *Annual Report of the FDIC*, 1939, p. 22, Table 6 and the *Annual Report of the FDIC*, 1940, pp. 92–93, Table 101.

demand deposits which are loan-created.[24] The argument has been that deposit insurance is designed to insure only the funds that individuals actually deposit in a bank, e.g. savings. It is contended that the vast majority of demand deposits are loan-created and do not come about as the result of an actual cash deposit. Insurance of such deposits, therefore, is a guaranty of bank loans, which is not in keeping with the purpose of deposit insurance. For this reason there has been strong support for a deposit insurance system which would cover only time deposits.[25] It has been pointed out, in addition, that it would be much easier to operate the fund successfully if the liability were limited to time deposits.

The insurance of demand deposits, both those that are loan-created and those that result from actual cash deposits, may be justified on the grounds that Americans live in a credit economy. That is, the primary circulating media at the present time are bank deposits and not bank notes. Inasmuch as the creation of bank deposits during the upswing of the business cycle appears to accelerate the boom, and because, on the other hand, the destruction of bank deposits on the downswing of the cycle seems to accentuate the depression, everything possible should be done to stabilize the volume of deposits.[26] It seems clear that federal deposit insurance can do much to prevent the destruction of deposits during the downswing of the cycle. It can do this not only through the payment of depositors in failed banks, but also through the confidence it tends to stimulate in depositors' minds.[27] Admittedly, stability of bank deposits is not merely a matter of stabilizing the volume of deposits. Bank deposits are two-dimensional; i.e., they have velocity as well as volume. Although deposit insurance undoubtedly provides a stabilizing force upon the volume of deposits during the downswing of a cycle, there does not appear to be any substantial basis for arguing that deposit insurance also tends to stabilize the velocity of deposits during a downswing. Granting this to be true, insurance of loan-created demand deposits still seems justified. It is more than a process to make individual de-

[24] Cf. J. L. Laughlin, "Guaranty of Bank Deposits", *Scribner's Magazine*, xliv (1908) 101–109; *Nation*, lxxxvii (1908), 220–221; D. Kinley, "Objections to Bank Deposit Insurance", *American Review of Reviews*, xxxvii (1908), 345–346; H. P. Willis, "The Banking Act of 1935 in Operation", *Columbia Law Review*, xxxv (1935), 699–700; Willis, "Folly of Deposit Guaranty", *American Mercury*, xxxi (1934), 21–22.

[25] Senator Vandenberg introduced a bill into Congress in 1932 which provided for the insurance of time deposits only. Cf. S. 21, 73rd Cong., 1st Sess. Also, cf. *Cong. Rec.*, 72nd Cong., 2nd Sess., Vol. 76, part 5, p. 5194, speech by Senator Vandenberg.

[26] Irving Fisher's solution to this problem is "100 per cent money". Cf. I. Fisher: *100 Per cent Money*, The Adelphi Company, 1935. Fisher argues that his plan would remove the need for federal deposit insurance. Cf. pp. 144–145.

[27] By means of its liquidating functions the FDIC is also able to exert a stabilizing effect upon the banking structure. Under a central agency such as the FDIC pressure for speedy liquidation of failed bank assets does not exist because depositors are paid from the insurance fund. Thus, the Corporation is able to hold assets of closed banks until market conditions are more favorable, in this way exercising a stabilizing influence upon the banking structure.

posits safe. It is a plan which possesses the potentiality of an important stabilizing effect upon the entire economy.

Insurance provisions of the Banking Act of 1933 made no distinction between demand and time deposits. The permanent fund was to cover all deposits up to 100 per cent for the first $10,000, 75 per cent from $10,000 to $50,000, and 50 per cent beyond $50,000.[28] Under the temporary plan all deposits were covered up to $2,500.[29] The limit of $2,500 was set because it provided full coverage for 96.5 per cent of all depositors, although it made the fund liable for less than 24 per cent of total bank deposits.[30] This was considered highly desirable in view of the experimental nature of federal deposit insurance.

When the life of the temporary fund was extended from July 1, 1934 to July 1, 1935 Congress increased insurance coverage to $5,000.[31] Under the Banking Act of 1935 insurance coverage was kept at $5,000 for both demand and time deposits. This action was the direct result of a recommendation made by the FDIC.[32] Explaining that Congress, in establishing deposit insurance, had been most concerned with "the mass of depositors with small accounts," Chairman Crowley stated that 98 per cent of depositors in insured banks were fully covered with the $5,000 limit. Many of the accounts not fully covered were interbank accounts, public funds, deposits of corporations, institutions and trust estates. He estimated the actual number of individuals with deposits in excess of $5,000 to be probably less than one per cent of the total number of depositors in insured banks. In addition, out of 14,000 insured banks, over 9,600 had more than 80 per cent of their deposits insured under the $5,000 limit. He pointed out that to raise the limit of insurance above $5,000 would greatly increase the maximum possible liability of the Corporation. At the same time, it would benefit only one out of each hundred bank depositors.[33]

The present limit of $5,000, as we have seen, is based on the feeling of FDIC officials that the Corporation's liability should be restricted, but that the large majority of depositors should be protected in full. Restricted coverage was chosen, therefore, because it would materially lower the cost of insurance over what it would have been under the original permanent plan, but at the same time it would cover about the same number of depositors. Although large depositors would not be covered under the $5,000 limit, it was argued that large depositors

[28] Public No. 66, 73rd Cong. Section 12 B (L).

[29] *Ibid.*, Section 12 B (y).

[30] Cf. *Hearing before the Committee on Banking and Currency*, H.R., 73rd Cong., 2nd Sess., on S. 3025, p. 81, testimony of E. G. Bennett.

[31] FDIC officials had favored retaining the $2,500 coverage in order to limit the Corporation's risk until it was strongly established. Cf. *loc. cit.* Also, cf. *ibid.*, pp. 13 and 95.

[32] Cf. *Hearings before the Committee on Banking and Currency*, H.R., 74th Cong., 1st Sess., on H.R. 5357, pp. 17–18.

[33] For the same explanation for the retention of the $5,000 limit, cf. "Federal Insurance of Deposits", *Columbia Law Review*, xxxvi (1936), 825–826; F. A. Bradford, "The Banking Act of 1935", *American Economic Review*, xxv (1935), 664; J. H. Taggart and L. D. Jennings, "The Insurance of Bank Deposits", *Journal of Political Economy*, xlii (1934), 508 ff.; *Cong. Rec.*, 74th Cong., 1st Sess., vol. 79, part 6, p. 6905, Representative Williams.

are usually in a better position to ascertain the relative position of banks and are often borrowers who may, in failures, offset their deposits against their own indebtedness.[34] It was further pointed out that the limit might be easily circumvented through the simple expedient of splitting deposits among several banks.

The FDIC has published the results of a study of insurance coverage under limits of $5,000, $10,000 and $25,000.[35] They show that on September 21, 1938 there were $21.7 billion of deposits insured under the $5,000 limit. An extension of the limit to $10,000 would have increased insured deposits to $24.8 billion, and an expansion to $25,000 would have covered $28.7 billion deposits. The proportion of insured deposits to total deposits would have increased from 45 per cent under the $5,000 limit to 51 and 59 per cent respectively under the $10,000 and $25,000 limits. Banks with 100 per cent insurance of their deposits would have jumped from 456 under $5,000 coverage to 2,078 with a $10,000 limitation and to 6,001 with a $25,000 limit. These banks held total deposits of $51 million, $397 million, and $2,068 million, respectively. Under a $10,000 coverage, deposits would have been insured 80 per cent or more in 11,580 banks, compared with 12,790 banks under a $25,000 limit and 9,566 under the $5,000 provision. Under existing law, 98.4 per cent of accounts were estimated to be fully protected by insurance. A maximum coverage of $10,000 would have provided full insurance protection to 99.3 per cent of accounts, while a $25,000 coverage would have fully insured 99.7 per cent of accounts. A bill introduced into Congress in 1940 by Representative Steagall provided for an increase in insurance coverage to $10,000.[36]

A strong argument has been made for 100 per cent coverage. It has become fairly well established that under the loan and purchase powers of the FDIC, whenever they are used, there already exists in effect 100 per cent coverage. That is, whenever the board of directors of the FDIC has been faced with the problem of bad assets in an insured bank, the Corporation has frequently purchased such assets or has made a loan upon them in order to avert a loss or to reduce its risk.[37] In the case of a loan, the Corporation merely takes over the bad assets and gives the bank in exchange a cash loan. The loan process never takes place unless the good assets of the weak bank plus the cash loan are taken over by another insured bank through merger or consolidation. After the transaction a sound bank possesses the good assets of the weak bank plus the cash loan. The weak bank goes out of existence in this process. The Corporation is thus left with the problem of liquidating the bad assets at the best possible terms. Usually a loss is taken upon them, but the theory is that this loss is much smaller than would have occurred if the weak bank had been allowed to fail. The Corporation sometimes accomplishes the same purpose by purchasing the

[34] "Federal Insurance of Deposits", *op. cit.*, p. 826.

[35] *Annual Report of the FDIC*, 1938, pp. 84–89.

[36] H.R. 8638, 76th Cong., 3rd Sess., February 23, 1940.

[37] For an explanation of the Corporation's loan and purchase policy, cf. *Annual Report of the FDIC*, 1939, pp. 9 and 16.

bad assets rather than by a loan upon them. The result is exactly the same. The FDIC pays cash and is then faced with the problem of liquidating the bad assets. The good assets of the weak bank plus the cash paid for its bad assets are taken over by another insured bank. Two important things are accomplished by the loan and purchase provisions. First, in addition to averting a more serious loss and reducing its risk, the corporation is able to exercise a stabilizing influence upon the economic life of the community. This it does through the prevention of a bank failure with its deflationary effects, as well as by means of an orderly liquidation of the bad assets. Secondly, the insurance coverage is increased from a mere $5,000 per depositor to a full 100 per cent. This is obviously true when the Corporation chooses to take a loss in order to prevent the failure of an insured bank.

Because there already exists, in effect, 100 per cent insurance of deposits, many feel that it would be wise to provide clearly for full coverage. As early as 1936 Mortimer Fox, then Chief of the FDIC Division of Statistics and Research, noted that if the Corporation was to maintain confidence during times of depression and thus remove the need for cumulative liquidation, it might be necessary that large as well as small depositors be protected.[38] He pointed out that analysis seemed to indicate that since closed banks were generally small, and inasmuch as almost all the deposits in those institutions were fully covered, the cost would not be materially increased if coverage were extended beyond the $5,000 limit.[39]

Homer Jones of the FDIC Division of Statistics and Research is a strong advocate of 100 per cent insurance coverage. It is his opinion that under the $5,000 maximum the usefulness of insurance during a banking crisis, both in maintaining confidence and in preventing the destruction of bank deposits, is decidedly limited.[40] Explaining in 1938 that under the $5,000 limit only about $20 billion were covered out of a total of $47 billion of deposits in insured commercial banks, Jones expressed the belief that in so far as large depositors do not have their deposits insured, they possess as much power as ever "to force liquidation of the banking system and resultant depression". Although about 43 per cent of the deposits of insured commercial banks of the country were covered, there was some question, he stated, whether the plan was effective even to that extent, inasmuch as big depositors may in their respective banks have "a greater propensity" to withdraw their deposits in time of crisis than have the small

[38] M. J. Fox, "Deposit Insurance as an Influence for Stabilizing the Banking Structure", *Journal of the American Statistical Association*, xxxi (1936), 107–108.

[39] Fox thought that from a practical standpoint, however, it did not seem wise to extend the limit at that time for three reasons. First, it could not be assumed that only small banks would continue to fail. Secondly, the "psychological effect" of subjecting the corporation to a risk which was over twice as great as that already assumed, without increasing its revenues or its reserves, might be undesirable. Finally, deposit insurance on a nationwide scale was an "innovation" and as yet experience in its administration had been too limited.

[40] Homer Jones, "Insurance of Bank Deposits in U. S. A., *Economic Journal*, xlviii (1938), 700.

depositors. For these reasons he felt that deposit insurance could be made "much more useful socially" if 100 per cent coverage were substituted for limited coverage.

Jones stated further that the costs of deposit insurance would probably be increased very little by the adoption of full coverage. This would be true for several reasons. First, he pointed to the fact that whenever the loan and purchase provisions are employed there is in effect 100 per cent insurance. Thus, full coverage is already in effect in many cases from the cost standpoint, but not from the standpoint of "socially desirable effects." In cases where insured banks actually fail, on the other hand, most of the deposits in excess of $5,000 for any one person have been withdrawn by the time the bank fails, so that the FDIC has the costs of practially 100 per cent insurance, but the "social disadvantage of deposit withdrawals from banks remains." Finally, he felt that in the light of past experience the federal government will probably not permit failure of the very large banks in the future, i.e., the banks which hold the bulk of uninsured deposits. If this is true, he argued, depositors in those banks have what is in effect 100 per cent insurance. But "in the absence of official recognition of the fact, the government bears the risk or cost without the maximum social benefit."

It seems clear that if the primary advantage to be derived from federal deposit insurance is not merely the direct protection it affords to individual bank depositors, but is a far broader benefit which it bestows upon society through its stabilizing effects upon the American economy, full coverage is much more desirable than restricted coverage. This is true because it is only under full coverage that the stabilizing functions played by deposit insurance can have their most telling effects. Under partial coverage there is still the incentive for feverish liquidation on the part of large depositors during a business crisis. It may be argued by some that the risk to the FDIC would be tremendously increased by 100 per cent coverage. Although this is probably more apparent than real, an increased risk could easily be defended on the basis of the highly important function the FDIC would be performing in lending stability to the American economy. Admittedly there are many factors which might upset the smooth operation of the economy in spite of the stabilizing influence of deposit insurance. It would seem that the loss of a few billions of dollars by the FDIC would be a small price to pay for the great benefits it would provide through a payment of depositors during the start of a bank crisis. On these grounds a government guaranty of the federal deposit insurance fund is not difficult to defend. The social significance of a stable volume of circulating medium is so great that the government would be justified in taking almost any possible steps to accomplish this purpose.

From the beginning of deposit insurance on January 1, 1934 to December 31, 1940 the FDIC has extended financial aid to 355 insured banks with deposits of $439 million.[41] The losses of depositors in these banks are estimated at ap-

[41] *Annual Report of the FDIC*, 1940, p. 13. This financial aid has been given not only through the payment of depositors in suspended banks but also through loans upon and purchases of the assets of weak banks.

proximately $3 million, or less than one per cent of total deposits.[42] The Corporation has paid out $216 million to over one million depositors in 355 insured banks. Of this sum it expects to lose about $46 million, one-fifth of its disbursements, or about 10 per cent of the deposits of the banks. Over one-half of this loss is accounted for by 8 of the 355 banks and almost one-third of it was incurred in banks which were merged or placed in receivership during 1940.

As stated above,[43] the FDIC protects depositors of insured banks in financial difficulties (1) by advancing cash to banks to compensate for their deficiencies or to replace their poor assets in order to facilitate mergers with other banks, or (2) by paying off depositors up to $5,000 per depositor in insured banks which fail without making satisfactory provision for payment of depositors. Disbursements made under these two methods during 1934–1940 are shown in Table 3. Of the 355 banks aided or closed, almost 98 per cent of the deposits have been made available promptly to depositors. Only 2 per cent of deposits have been withheld until the failed banks have been liquidated.

TABLE 3

DISBURSEMENTS OF THE FDIC IN CONNECTION WITH BANKS IN FINANCIAL DIFFICULTIES, 1934–1940[44]

| | NUMBER OF BANKS | | | AMOUNT OF DISBURSEMENTS (IN MILLIONS) | | |
|---|---|---|---|---|---|---|
| | Total | Placed in Receivership | Merged | Total | Insured Deposits paid | Loans and assets purchased |
| Total....... | 355 | 226 | 129 | $216 | $67 | $149 |
| 1940 | 43 | 19 | 24 | 74 | 5 | 69 |
| 1939 | 60 | 32 | 28 | 68 | 26 | 42 |
| 1938 | 74 | 50 | 24 | 30 | 9 | 21 |
| 1937 | 75 | 50 | 25 | 19 | 12 | 7 |
| 1936 | 69 | 42 | 27 | 15 | 8 | 7 |
| 1935 | 25 | 24 | 1 | 9 | 6 | 3 |
| 1934 | 9 | 9 | — | 1 | 1 | — |

Table 4 shows the percentage of deposits protected in insured banks in financial difficulties during 1934–1940. It is significant that 100 per cent protection has resulted in every case where the FDIC resorted to its loan and purchase power.

III

During the first seven years of its existence federal deposit insurance has provided protection for a vast majority of bank depositors. Under the $5,000 coverage limit approximately 97 per cent of depositors in insured banks have

[42] This rate of loss compares with an estimated average loss of about 20 per cent suffered by depositors of closed banks during the seventy years immediately preceding federal deposit insurance. Cf. *ibid.*, pp. 61–70.

[43] *Supra*, pp. 10–11.

[44] *Annual Report of the FDIC, 1940*, p. 15, Table 3.

been protected. This accomplishment has been achieved at a relatively small risk to the FDIC because of the restricted coverage. To those who consider federal deposit insurance a plan designed merely to guarantee bank deposits of the bulk of American depositors the FDIC has fulfilled its purpose. Under the $5,000 coverage, however, despite insurance of the largest part of depositors, less than half of total bank deposits in the United States are insured. This is true because of the uninsured portion of deposits larger than $5,000, as well as the failure of some banks to join the FDIC.

The strongest justification that can be offered for federal deposit insurance is not the protection it affords to individual depositors, but rather the stabilizing influence it exerts upon the entire economic system through its power to prevent

TABLE 4

Deposits Protected in Insured Banks in Financial Difficulties, 1934–1940[45]

| | IN ALL CLOSED BANKS | IN BANKS PLACED IN RECEIVERSHIP* | IN BANKS MERGED† |
|---|---|---|---|
| All banks | 97.8% | 88.8% | 100.0% |
| Banks with deposits of: | | | |
| $100,000 or less | 97.1 | 96.3 | 100.0 |
| $100,000 -$250,000 | 96.4 | 95.4 | 100.0 |
| $250,000 -$500,000 | 96.2 | 93.9 | 100.0 |
| $500,000 -$1,000,000 | 93.6 | 87.0 | 100.0 |
| $1,000,000 -$2,000,000 | 98.1 | 92.9 | 100.0 |
| $2,000,000 -$5,000,000 | 97.0 | 84.5 | 100.0 |
| $5,000,000 -$10,000,000 | 100.0 | — | 100.0 |
| $10,000,000-$50,000,000 | 98.3 | 82.4 | 100.0 |
| More than $50,000,000 | — | — | — |

* Protected by insurance, security, offsetting claims or priority over claims of other depositors.

† With financial aid of the FDIC.

the destruction of bank deposits during the downswing of the business cycle. In order to strengthen this power, therefore, 100 per cent insurance coverage should be put into effect. For practical purposes the loan and purchase powers of the FDIC, if and when exercised, already provide 100 per cent insurance. Full coverage is necessary if deposit insurance is to be given a fair chance to carry out its stabilizing functions. Uninsured deposits to the extent of more than half of the total deposits are likely to represent a burdensome handicap to the Corporation in any future efforts to alleviate the liquidation process which accompanies the downswing of a cycle. Even if it necessitates a governmental guaranty of the insurance fund, full coverage should be put into effect.

[45] *Ibid.*, p. 16, Table 4.

# MINIMUM WAGES, UNEMPLOYABILITY, AND RELIEF: A THEORETICAL NOTE

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I

Will the enactment and enforcement of minimum wage legislation increase unemployment and unemployability in the occupations which it covers? The major argument on the affirmative is obvious. Wage rates will outrun marginal value productivities at existing levels of employment, and the levels of employment will have to fall.[1] The major arguments on the negative run to a higher degree of sophistication. They stress (1) increased purchasing power and increased demands for goods raising productivity schedules to meet new wage rates at existing employment levels, and (2) increased efficiency of labor resulting from higher living standards. The first of these arguments on the negative has received analysis at the hands of Mr. Weir M. Brown in a recent number of the *American Economic Review*[2]—without, in this writer's opinion, evading question-begging assumptions. The second argument is tantamount to a charge of circularity against the entire marginal productivity theory of distribution, as applied to the lower wage groups. For by this version, it is rather productivity which depends on wages, in the lower wage levels, than wages which depend upon productivity. We shall concentrate our attention upon this second argument and its consequences to minimum wage policy.

II

The idea that the schedule of marginal value productivity of unskilled labor could be raised, if workers receive a higher wage rate, rests on the belief that their actual wage rates are in some sense "sub-standard." The workers are "ill-fed, ill-clothed, ill-housed." If they were better fed and clothed and housed, and better cheered as well, by higher wages, their physical efficiency might rise in the same proportion as the wage rate.

[1] A recent statement of this point of view in the pages of the *American Economic Review* comes in a single sentence of Professor B. M. Anderson, Jr.'s provocative attack on "Governmental Economic Planning". (*American Economic Review, Supplement*, March 1940, p. 254.) In Professor Anderson's words, "unsound theory prevails when high hourly or daily wages at which few men can be employed are substituted for functional wages—a policy to be condemned from the standpoint of the annual income of labor and the welfare of the laboring class."

[2] Weir M. Brown, "Some Effects of a Minimum Wage upon the Economy as a Whole," *American Economic Review*, XXX (March 1940). Mr. Brown's argument assumes a *favorable* "impact effect" of wage increases upon total labor income—an assumption precisely contrary to Professor Anderson's, cited in the preceding note. It does not appear to the writer that Mr. Brown demonstrates the existence of this favorable "impact effect", or that he has distinguished clearly between the wage *rate* and the wage *bill*. *Vide infra*, note 4, under heading (c).

This does not settle the question of the effects of the increased wage rate. An increased amount of labor efficiency applied to given plant facilities might give rise to diminishing returns and higher costs. This particular difficulty is not serious, even in the short run, if there exists widespread unemployed plant capacity. In the long run plant capacity may be increased so that the effect of diminishing returns upon the marginal physical productivity of workers could be eliminated.

But this is still not all, and the next difficulty is more serious. If the same number of workers is employed, with their increased physical productivity, there is a rise in total output. If the increased output could be sold only at reduced prices, this would cause the schedule of marginal value productivity of the workers to rise (if at all) in a smaller proportion than the wage increases. It would thereby lead to unemployment. An answer to this argument might be that the increased money income of the workers would lead to so great an increased demand for products that it would become possible for the increased output to be sold at the same level of prices as existed previously.[3]

This line of reasoning can also be expressed more formally. Efficiency, we are assuming, will rise proportionately to wages. Therefore unskilled labor costs of production will remain constant. As the efficiency of unskilled labor rises, unemployed resources of other types will be hired, at going wage rates, in consequence of increased production. In the absence of what Mr. Keynes and his followers call "bottlenecks", meaning sectors of substantially full employment, all resource prices will remain constant, and there will be no effects on selling prices from the cost side. Since costs of production may be taken to constitute incomes, constancy of average costs of production implies concurrent expansion of total income and total output. With total income and total output expanding concurrently, there should be no difficulty in disposing of the increased output at unreduced prices. With physical productivity schedules rising in proportion to wages, and price levels remaining constant, marginal productivity schedules also rise in proportion to wages. The increased wage rates and wage bills can be borne without increased unemployment.[4]

[3] Though the general level of prices need not change, shifts in relative prices are to be expected rather than ruled out. The prices of "wage-goods" may be expected to rise relative to the prices of "non-wage-goods", particularly relative to the prices of luxury goods.

[4] Various other considerations are cited by proponents of legal minimum wages to diminish further the risk of long-period unemployment resulting from wage increases. Certain of these are listed below, with more or less parenthetical comments as to validity and applicability.

a. Enactment of the legal minimum wage eliminates monopsonistic exploitation of unskilled laborers, and may increase employment and wage rates simultaneously. (The importance of monopsonistic exploitation is probably not great for the low-grade, unspecialized labor chiefly affected by minimum wage laws, except in isolated communities.)

b. Enactment of the legal minimum wage induces inventions and improvements in managerial methods, tending to increase the marginal physical productivity of labor. It also accelerates the adoption of inventions and improvements already available. (These improvements, when and if they occur, may well be labor-saving. If so, they will enhance unemployment problems, at least in the short run.)

Let us suppose that this whole train of reasoning is based upon sound physiological and psychological premises. Let us suppose that physical productivity *will* rise proportionately with wages, and that no bottlenecks will prevent the rising physical productivity from being reflected in rising value productivity. Is the case clearly decided, in favor of minimum wage legislation? Only under special assumptions, it seems to the writer, as to prevention of temporary unemployment, or assistance to the temporarily unemployed. The essay which follows is an attempt at theoretical exploration, and supposes application of the legal minimum wage to an entire economy.[5]

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c. Payment of higher wages tends to redistribute the national income to the advantage of a group whose propensity to consume is high. It thereby increases demand, and if there is any price rise at all, it increases the marginal value productivity of labor as well. Even if there is no price rise, employment is increased through plant expansion and reduction in unused capacity.

This argument is spelled out by Brown, in his article cited in Note 2 above. (*Op. cit.*, p. 101 f.) It appears to make one significant implicit assumption and overlook one significant offsetting fact.

(1) The entire argument assumes a short-run inelastic demand for the labor in question, so that payrolls move with wage rates. This may be sound, but again it may not. The so-called Cobb-Douglas analysis indicates a high elasticity of demand for labor, and would lead to contrary results. These results are hardly conclusive, however. In the first place, shifts *in* as well as *along* any demand curve for labor derivable from the production function are important in determining the level of employment. (Mathematically, the Cobb-Douglas function is:

$$P = b\, L^k\, C^j$$

where $P$, $L$, $C$, are total product, employed labor, and employed capital, and the other terms are statistically fitted constants. If an attempt is made to relate the amount of labor demanded ($L$) to its marginal productivity ($\partial P/\partial L$), the result is:

$$L = \left(\frac{\partial P/\partial L}{k\, b\, C^j}\right)^{1/(k-1)}$$

This is a *family* of curves, shifting with $C$, the amount of capital employed. Changes in $C$ as well as in $\partial P/\partial L$ are therefore significant in determining the level of employment, and only the latter are considered in computing the elasticity of demand proper.) In the second place, various attributes of the Cobb-Douglas function itself make it yield unduly high values for the elasticity of demand for labor, with capital constant. (See a paper by the present writer, "The Cobb-Douglas Function and Trade-Union Policy," *American Economic Review*, XXIX (December, 1939).)

(2) The low-wage workers have an admittedly low propensity to save. However, what saving there is in this class is unusually apt to be hoarded, with somewhat depressing effects. These effects may offset to an appreciable extent the contrary effects of the low propensity to save.

[5] If there be exempted occupations (such as agriculture and domestic service in the bulk of American legislation), displaced workers may drift into substandard occupations instead of becoming unemployed. Such terms as "unemployed" and "unemployable" in the following paragraphs must be qualified "with respect to industries covered by the minimum wage law." (The analysis suggested here for minimum-wage legislation applies, it need hardly be added, to maximum-hour legislation if weekly wage rates are not lowered proportionately.)

III

We shall proceed with particular reference to two diagrams, labelled Figure 1 and 2. These two diagrams are inter-connected. The first stresses the long-run adjustment, and the second stresses the temporal course of events. Figure 1 shows three marginal-value productivity curves for unskilled labor. The middle one, labelled *a*, corresponds to, and results from, a sub-standard wage indicated by *w* on the price axis. The highest marginal productivity curve, labelled *b*, corresponds to and results from a somewhat higher wage *w′*, the legal minimum. The curves are so drawn that with a wage *w* (and the corresponding level of efficiency, *a*) *n* workers are employed, and that increases in both wage rates and marginal productivities may lead eventually to the same *n* workers being employed at the higher wage *w′*, (and the higher level of efficiency, *b*).[6]

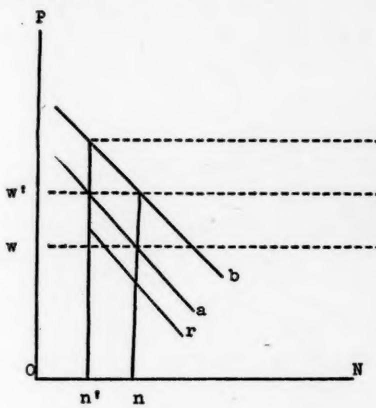


Fig. 1

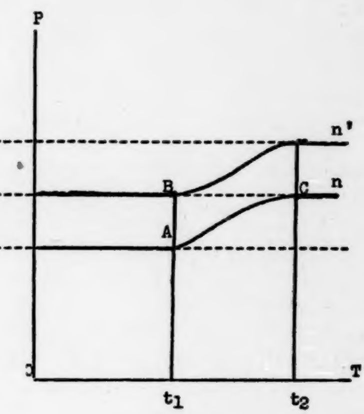


Fig. 2

IV

In the situation indicated by Figure 1, there would be no need to reduce employment even temporarily, upon enactment of minimum wage legislation, if the adjustment of the workers' physical efficiency (the shift from the *a* to the *b* curve) were instantaneous. Unfortunately for our rather sanguine analysis to date, the adjustment is not instantaneous. Better food, better clothing,

[6] At the risk of monotony, let us emphasize again that this is intended only as a special case. If the curve *b* lies below that drawn, as conservatives assume will occur, the unemployability problem will be a long-run if not a permanent one, since *n* men cannot be employed at wage *w′* on that *b* level of productivity. On the other hand, if the true *b* curve lies above the curve drawn, the wage increase may lead to a long-run increase in the level of employment. This increase may be sufficient to absorb the incremental labor supply, if any, due to the higher wage. (Brown, *op. cit.*, p. 104, follows Professor Paul H. Douglas, whom he cites approvingly, in denying any importance to this incremental labor supply.)

better housing, undoubtedly do increase productive efficiency up to a certain point, but cannot be expected to do so immediately. One good meal, one good overcoat, one night in a warm room, will make no difference worth mentioning. Possibly years are necessary, rather than weeks or months, before increased standards of living work out their full effects upon productivity. A lag effect results, which is illustrated in Figure 2. Here the vertical axis represents marginal value productivity, and is identical with the vertical axis of Figure 1. The horizontal axis, however, represents time.

Assume that $n$ men are employed at wage $w$, and continue in employment while the wage rises from $w$ to $w'$ at $t_1$, when the minimum wage law goes into force. The marginal productivity of $n$ men would reach the $b$ curve, or the $w'$ level, only a considerable time later, say at $t_2$. (The path followed by the marginal productivity through time is indicated by the $n$ curve of Figure 2.) At $t_1$, it would not pay the employers to retain more than $n'$ men, this being the smaller number employed at a marginal productivity $w'$ on the efficiency schedule $a$ determined by workers' previous income at the sub-standard wage $w$.[7] (As time passes, the marginal productivity of the $n'$ men increases, as is indicated by the $n'$ curve of Figure 2.)

The point is, however, that it does not pay employers to retain more than $n'$ men at $t_1$, when the minimum wage law comes into effect. The initial or "impact" effect of a legal minimum wage is therefore the ostensibly temporary unemployment of $(n-n')$ men (disregarding increments to the labor supply), quite regardless of the ultimate effect of higher wages upon labor productivity. This effect may be spread over time (but not avoided, unless employers are willing to take losses) by increasing wages from $w$ to $w'$ by several small increments instead of by a single large one. (The American acts usually provide for the use of this method.) The temporary unemployment could be avoided completely by paying employers temporary payroll subsidies. These subsidies would be analogous to present Social Security Act payroll taxes in form, though not in direction of payment. They would be analogous to "infant industry" tariff protection in motive, though not (it may be hoped) in duration. They would consist of a certain percentage of the employer's (or possibly his industry's) payroll, determined according to the proportion of workers the employer (or the industry) had been paying rates below $w'$ and the amounts by which the substandard wages had been below the legal minimum. Such "wage subsidies" or "payroll subsidies" have been advocated in the literature as particularly desirable methods of implementing budget deficiets, increasing employment, forestalling wage cuts, and providing monetary expansion in the ordinary chan-

[7] If employers retained the original $n$ men throughout, their loss would be negligible for the $(n' + 1)$ st man, and equal (exclusive of interest) to the entire area ABC for the $(n - 1)$ st. The total loss exclusive of interest could be obtained mathematically by adding the areas analogous to ABC for all curves of the family $n, \ldots, n'$, lying between these two extremes. This process involves the calculus of variations where the family consists, as here, of an infinite number of curves.

nels of private enterprise. They have not, to this writer's knowledge, received much attention as accompaniments for minimum wage legislation.

So far we have limited our attention to what we have called the initial or impact effects of minimum wage legislation. From here, the problem becomes more difficult. Suppose that $(n - n')$ men are unemployed because of the wage increase. The question arises, whether forces exist tending to make their unemployment temporary only. This problem we examine next, with the aid of our diagrams.

As the fortunate $n'$ men retained in employment gain in physical efficiency because of higher wages, their marginal value productivity rises above the legal minimum wage.[8] Employers should seek to hire more men at this wage $(w')$. However, no more men of the same degree of efficiency are available. Would employers hire certain of the $(n - n')$ unemployed, or would the wages of the employed group $(n')$ rise steadily with productivity, the unemployed remaining idle?[9]

The wage increase, coupled with the temporary unemployment, tends to divide the workers into two classes on an efficiency basis. The $a$ curve of Figure 1 is no longer a schedule of productivity for the $n'$ men who remain employed. They are more efficient, and their productivity is given by the $b$ curve. The $a$ curve is a schedule of productivity for the unemployed alone. The transfer of the $n'$ who remain employed to another category shifts the origin of the $a$ curve to the right by precisely $n'$ units. That is to say, instead of the $(n' + 1)$ st man having a productivity $w'$, it is now the first man who has this productivity, because the other $n'$ are now laborers of a different type.

If there has been any further effect, tending to raise the $a$ curve vertically, the marginal productivity of unemployed workers has risen above $w'$, and prospects of at least some re-employment are favorable. If the curve has remained constant or has fallen, the marginal value productivity of the unemployed will remain below $w'$, or even fall further below it. They will become permanently unemployable for so long as $w'$ is the legal minimum wage.

## V

Two sets of additional factors enter the picture, when we consider probabilities as regards the direction of vertical shifts in the $a$ curve. They pertain to business organization and to relief administration.

[8] For, if other resources than unskilled labor are unemployed, the increased efficiency of unskilled labor should mean their employment at going rates of remuneration. This increased employment of other resources should mean increased income and demand. Increased demand for goods should prevent the effects of increased physical efficiency of unskilled labor from being cancelled by price declines or output restrictions. Increased physical efficiency of unskilled labor should mean increased value as well as physical productivity.

[9] A third alternative solution is not indicated on the diagram. New workers (youths, apprentices) may turn to the various trades, preventing the wage rate from rising above $w'$. Those previously unemployed would remain so. (This alternative solution assumes a younger generation brought up at living standards conducive to a higher degree of efficiency.)

First, groups of workers who perform essentially the same sort of operation with different degrees of skill tend to be competitive with one another in production.[10] The reason for this is that the routine of plant operations is keyed to a particular efficiency level, that of the majority of the plant's workers. It is accordingly not conducive to maximum productivity by either the unusually efficient or the unusually inefficient workers. This factor, operating singly, would tend to lower the $a$ curve of Figure 1, thereby rendering it extremely unlikely that "temporarily" unemployed men can be re-absorbed at the legal minimum wage. This would be the more true, the longer the unemployment continues, since workmen, like musicians, tend to lose skill as a result of lack of practice.

Second, if by ceasing their work at wage $w$, the unemployed fall to a still lower relief standard, or are left to forage as best they can, their productivity curve may fall still further, perhaps to that labelled $r$ in Figure 1. The development of a derelict class of unemployables is practically assured, so long as the legal minimum wage remains at $w'$. To avoid such a catastrophe, and at the same time to refrain from emasculating the minimum wage law itself, what must be the course of relief payments? They must be such as not only to maintain workers' efficiency at the level represented by the $a$ curve of Figure 1, but to raise it to a higher level. To an increasingly higher level, in fact, as the origin of Figure 1 moves with the absorption of the unemployed. To maintain efficiency at any level such as $a$, despite the effects of competitiveness in production and of lack of practice, relief payments must be at a scale higher than $w$, and must rise steadily, if the reabsorption process is to continue. They must even rise to or above $w'$, it would appear, if the last few unemployed are to find jobs paying the legal minimum wage.[11]

## VI

The implications of these results as regards proper relief policy differ markedly from practices adopted (either from choice or necessity) by adminis-

[10] That is to say, the marginal productivity of each group will decrease proportionally as a larger number of the other group are employed.

[11] There is an additional reason for maintenance of relief payments at a high level, if the elasticity of demand for labor is greater than unity. In this case, total demand for goods would fall. (Our diagrams assume it unaffected; Mr. Brown's optimistic paper, to which we have referred several times previously, assumes it to increase.) Productivity curves and levels of employment would then fall as well. Prospects of avoiding further unemployment would be even more slender, unless relief payments took up the slack. Moreover, declining demand and consequent unfavorable expectations might well cause employers to restrict output and reduce employment of all resources as higher wages led to increased efficiency of unskilled labor. In this last case, which delicacy rather than candor commends to a footnote, only adequate relief payments stand in the way of a toboggan slide to unparallelled depression following the enactment of the legal minimum wage.

See, e.g., A. C. Pigou, *Economics of Welfare* (4th edition, London, 1930) pp. 468, 607–612, 615, 699–704, 746–748, *Industrial Fluctuations* (London, 1926) pp. 315f, *Theory of Unemployment* (London, 1933) pp. 16, 124–26, 161–63, 168; Nicholas Kaldor, "Wage Subsidies as a Remedy for Unemployment", *Journal of Political Economy*, XLIV (December, 1936), pp. 699–704; Mrs. Joan Robinson, *Essays in the Theory of Employment* (London, 1938) pp. 77–81.

trators of relief. For the policies suggested involve supporting unemployed workers at standards *above* their wage levels when last employed, and at standards *rising* with the period of unemployment. Their effects upon "morale" (willingness to work) might be so unfavorable as to render them anathema to social workers. Nevertheless they may be necessary, if the creation of an additional class of industrial derelicts is to be avoided under minimum wage laws. And this conclusion holds, be it noted, even though higher wages would have paid for themselves in increased productivity under full employment, had the increased productivity been instantaneous.

There is an apparent dilemma here, between the relief standards suggested by theoretical economics and those suggested by social and political considerations. This dilemma is most easily avoided in practice if minimum wages are introduced or raised at periods of rising wages, such as the present. At other times less fortunate for unskilled labor, the dilemma may be avoided by two devices suggested briefly in the course of this essay. Legal minimum wages should be increased only gradually. Their effects should be mitigated by simultaneous payroll subsidies to employers. These subsidies should equal some percentage of the difference between the employer's payroll at previous wage rates for the number of sub-standard workers currently employed and the payroll required under the minimum wage law. The percentage should never be equal to 100 and should decline steadily over time, eventually reaching zero. The administration of any wage subsidy would have the difficult task of preventing or offsetting the overloading of payrolls with substandard workers as well as any lowering of wage rates to these workers by employers during the subsidy period. These subsidies should be designated to eliminate the necessity of even temporary unemployment, for we have seen the danger that such temporary unemployment may become permanent in practice. The subsidies should be designed (after inductive studies of unskilled labor productivity and its approximate rate of increase with wage rates in various occupations) to recompense employers for the losses they must incur in maintaining employment through interim periods between wage and productivity increases.[12]

[12] Critics in what is becoming the Keynesian "tradition" may not hesitate to point out that it is primarily the monetary expansion aspect of either liberal relief policies or payroll-subsidies which brings about the maintenance or increase of the level of employment as minimum wages rise. In this view they are quite correct, though it does not follow that *any* form of monetary expansion would be equally appropriate. These particular methods have certain advantages over the "broadside" or "hit-or-miss" methods of monetary expansion. They maintain employment with a minimum of temporary unemployment. They do not involve dislocation of the economic structure through shifts from private to public industry. (Especially is this true of the payroll-subsidy plan; relief may take the form of work relief on public projects.) Due to their concentration of the stream of monetary expansion on the precise points where it is most needed for the efficient working of minimum wage legislation, these measures are something more than monetary measures pure and simple.

# BOOK REVIEWS

*The International Steel Cartel.* By Ervin Hexner. Chapel Hill: The University of North Carolina Press, 1943. Pp. xvii, 339. $6.00.

This book deals with one of the most significant and most powerful marketing and price control agencies recorded in the annals of economic history. At the height of its power, for about one year before the outbreak of the Second World War, the International Steel Cartel embraced all important exporter-producers of steel both in Europe and in America, and through its sales comptoirs controlled the international trade of practically every variety of crude and semifinished steel. The money value involved constituted around 5 per cent of the total value of world exports. Through an International Scrap Convention the cartel extended its influence over this important raw material of the modern steel producer. Hardly a ton of steel could cross any national border anywhere without the knowledge and consent of the central control agency in Luxemburg, and infractions of cartel rules were reported almost instantly, no matter how distant and obscure the place of their occurrence. In thus governing the flow of trade in, and determining the conditions of sale of, crude steel and semifinished steel products, the ISC vitally affected the economic life of countries both exporting and importing steel and exercised no little influence on political developments as well.

While international cartels regulating the sale of specific steel products, e.g., rails, can be traced fairly far back in history, attempts to establish comprehensive, industry-wide controls may be said to have begun in 1925 when Germany regained the economic autonomy she had lost at Versailles. France and Luxemburg had taken over important steel works formerly owned by German firms; Germany, in turn, was rebuilding her own industry on a narrower basis. The danger of capacity outstripping demand was clearly recognized and furnished the main impetus to the agreement signed in Brussels in 1926 through which the steel industries of Germany and of her western neighbors on the continent joined in establishing the EIA (*Entente Internationale de l'Acier*), also known as the IRS (*Internationale Rohstahlgemeinschaft*). Shortly afterward the central European group, the steel producers of Czechoslovakia, Austria and Hungary, joined. This first effort was shortlived; for Germany, in her eagerness to see international competition restrained, had granted concessions which soon proved too onerous. Moreover, this first control scheme was too ambitious in scope. It soon met with increasing difficulties. The crash in the autumn of 1929 gave the *coup de grâce.*

Almost immediately attempts at some sort of renewal of international cartel control were made. It was not till 1933, however, that a new organization was set up. Again the founder group, Germany, France, Luxemburg, and Belgium, were the first to sign. Poland joined in 1935, Czechoslovakia and, after a trial period, the United Kingdom in 1936 and finally the United States, represented by the Steel Export Association organized under the Webb-Pomerene Law, in

1938. The founder group together with the eastern section formed EIA. This, together with the British group, formed the ESC (European Steel Cartel). This, in turn, by the addition of the American group became the ISC proper. These three organizations were super-cartels, the individual steel-producing firms joining as members of their respective national cartels, federations, or associations. Their main function was policy-making. The actual control over export sales was exercised through Sales Comptoirs of which there were seventeen. Their relationships to the several super-cartels varied considerably.

After tracing the genesis and basic structure of both the central cartel agencies and the participating national groups, Dr. Hexner discusses marketing problems, methods, and policies, as well as steel prices and pricing policies. Special chapters are devoted to the American participation and to political implications. These chapters are replete with valuable information, analysis, and interpretation which few economists can afford to miss.

Of even broader appeal, however, are the general chapters: I., General Considerations, II., The Cartel Concept, and XI., Conclusions. It is here that Dr. Hexner brings to bear the full weight of his truly amazing knowledge and understanding. It is here that the reader cannot escape feeling strongly how much we in this country owe to that two-faced *Fortuna* which has brought some of the most brilliant minds of Europe to our shores.

It seems doubtful whether just now, in the midst of war, many readers have the time, patience and sympathy to spare for a thorough study of a truly scholarly treatise on an international cartel which for the present is ancient history. But when the time comes for the reconstruction of the industries of the world, a revival of objective thinking on questions of international controls will become a crying need. That an industry whose production capacity has jumped from less than 120 million tons in 1929 to around 200 million tons today will be able to dispense with international controls seems most unlikely. When that time comes, Dr. Hexner's book will prove an indispensable guide and a model of impassionate scholarship of the highest order. In the meantime it is warmly recommended to those who seek further light on that tragic era, "the twenty-year crisis".

*The University of Texas* ERICH W. ZIMMERMAN

*Outlay and Income in the United States*, 1921–1938. By Harold Barger. New York: National Bureau of Economic Research, 1942. Pp. xxvii, 391. $2.50.

This monograph, the fourth volume in the series on Income and Wealth published by the Conference on Research in National Income and Wealth,[1] is "intended primarily as a contribution to materials for the study of the business cycle," but "no attempt" is made "to analyze the results obtained, or to relate them to other cyclical phenomena." The primary purpose of the study is to measure the dollar volume of the national product in terms of two independent series, namely, income and outlay, and to present these two series on both an

[1] *Studies in Income and Wealth*, Vol. I (1937); Vol. II (1939); Vol. III (1939); National Bureau of Economic Research.

annual and a quarterly basis. The annual estimates of income are those compiled by Simon Kuznets and published in *National Income and Its Composition, 1919–1938*. In order to get the series for total consumer outlay, Barger uses the annual data on the value of commodities passing into the hands of consumers computed by Kuznets and adds to these values a new series of estimates of the value of services rendered directly to consumers. This series represents, roughly, one-third of the total consumer outlay.

The figures on consumers' outlay which "consists of private consumption and investment, together with such finished output as the government produces" (p. 7) are reported on an annual basis for services and perishable, semidurable and durable commodities, and on a quarterly basis for public and private outlay with additional breakdowns as to type. The income series is divided into three main divisions: (1) Residual Income which represents the "return to enterprise outside of agriculture and the professions," (2) Short Term Income which measures "the income accruing to labor (in the widest sense) employed by private business or engaged in the professions," and (3) Long Term Income which "measures the return to owners of fixed claims against private individuals or businesses" (pp. 8–10). Both the outlay and income figures are so broken down that individual users may make alternative combinations of the data for different purposes and to conform with different concepts.

In this briew review it is not possible to mention, much less discuss, the many conceptual and statistical difficulties, and the methods used by the author in arriving at the estimates of income and outlay. On the income side the author has followed closely the concepts and procedures established by Kuznets and on the outlay side the methods developed by Lough.[2] Since the author is primarily concerned with measuring what can be measured or estimated on the basis of available data, in cases of conceptual differences the "governing decisions" are, generally, "statistical convenience" (p. 3).

While the "two estimates are intended to measure the same quantity" (the dollar volume of the national product), the estimates of income and outlay do not agree. This is to be expected since, except for slight overlapping of series, the calculations are independent of each other. The author recognizes that considerable error may exist in either or both series and points out that no summary statement can be made concerning the margin of error of the estimates (p. 21). The author suggests, with considerable reservations, that by considering the two independent estimates together some estimate of the error might be made. In the reviewer's opinion this is extremely questionable. On balance, Barger concludes that the measures of income are more reliable than the measures of outlay (p. 87).

The estimates for outlay and income on a quarter-to-quarter basis from 1921 to 1938 is the second chief contribution of the book. This monograph contains the first complete set of estimates of consumption, investment, and income on a quarterly basis for the United States for this period. While recognizing that both the conceptual and practical difficulties of measuring "national income

[2] W. H. Lough, *High Level Consumption*. New York: McGraw-Hill Book Company, Inc., 1935.

or outlay for periods shorter than a year" are greater than for "annual measurements" the author concludes that "they are difficulties of essentially the same kind" (pp. 13–15), but admits that for shorter periods "we do not measure what people are really earning so much as what they think they are earning." This is a more serious limitation from "the viewpoint of the social historian" than from "the viewpoint of the business cycle analyst" since the latter is interested in the changes from period to period. Rejecting the weighting of index numbers method of allocating the total annual income to the four quarters of a year, Barger chooses instead the method of interpolation together with a device which he calls "graduation of raising factors" to avoid significant breaks between the last quarter of one calendar year and the first quarter of the next. This method permits the continuous removal of bias but a series of successive approximations is necessary in order to make the total of the four quarterly figures agree with the annual figure. Barger has stopped short of this goal first, because the burden of calculation is too heavy to justify the slight increase in accuracy, and second, because in the study of business cycles the quarter-to-quarter changes are more important than agreement between the quarterly totals and the annual figure.

Despite limitations of the original data, these annual and quarterly estimates of income and outlay are the best available for the United States, from 1921 to 1938. This is a book with which every serious student of income measurements and business cycles should be familiar.

*University of Tennessee* PAUL BARNETT

*American Agriculture 1899–1939, Output, Employment and Productivity*. By Harold Barger and Hans H. Landsberg. New York: National Bureau of Economic Research, Inc., 1942. Pp. xxii, 440. $3.00.

This is a timely and noteworthy study of a difficult problem. It is, as the authors state, an investigation of agricultural output, employment and productivity for a period of forty years beginning in 1899. At the outset, there is a brief discussion of the nature of farming and the place of agriculture in our national economy. This is followed by an analysis of the total output or "the over-all production" and that of specific farm products, such as grain crops, potatoes, tobacco, cotton, wool, sugar crops, and citrus fruits. An attempt is then made to measure this output in terms of calories, vitamins, and minerals and to state the changes which have occurred in the composition of our national food supply. The effect on agricultural production of changes in techniques is discussed under the general subject of Changes in Technology. The manpower used to create the national food supply is discussed under the caption Employment in Agriculture. A consideration of these subjects—output, food supply, production techniques and manpower—is an introduction to a discussion of agricultural productivity or the output per unit of labor input.

There is in addition a number of detailed appendices setting forth the methods used in obtaining the net output of agriculture, the statistics of food consumption, a comparison with other indexes of output, and one on charts, sources and notes. Those who are vitally concerned with this subject will be interested in an extensive note (page 316) by Reinold Noyes, one of the directors of the National

Bureau of Economic Research, under whose auspices this investigation was conducted. Mr. Noyes disagrees with some of the major conclusions of the authors.

As a result of their study, the authors conclude that the agricultural output during the forty-year period from 1899 to 1939 increased about 50 percent, or somewhat less than the increase in total population, and that our exports, particularly grains, cotton, and livestock have declined. The cause of this decline is briefly examined with emphasis on our tariff policy and the agricultural policy of foreign countries with respect to the production of food products. Although the authors are not dogmatic with respect to the cause of the decline in our exports, they are of the opinion that as a result of this decline the domestic consumer is now dictating more than ever before the type of agricultural production. They point out that about 85 percent of our net farm output is designed for human food most of which is consumed in the domestic market. As a result, perhaps, of the effect of consumer demand there has been a notable tendency towards the production of protective foods, particularly milk, fresh fruits, and vegetables.

The authors are less certain in their conclusions with respect to productivity in terms of human effort. Difficulties are encountered, well known to those who have explored this field, in calculating the net productivity of the farm. Nevertheless, the data appear to indicate a marked increase in the efficiency with which agricultural production has been conducted during the past four decades. From the data presented it would appear that the productivity per farm worker has increased about 54 percent since 1900. The increase in productivity per worker may indeed be greater than this since the effective composition of the worker population has undergone considerable change since 1900. For example, women and children do less work today than formerly. If, then, the effective labor force could be accurately computed the increase in output per worker might be as much as 100 percent.

The conclusions of the authors regarding the food supply are somewhat pessimistic and, according to Noyes, unwarranted. The authors believe that the aggregate agricultural output which has, according to their figures, been increased will shortly cease to increase and that the trend in the number of people engaged in agriculture will decline. This conclusion seems to be based on opinion rather than on facts presented in the course of the investigation. It is extremely dangerous to make any broad generalization from analysis of agricultural data, in view of the defects which are ever present in the techniques used. On the whole, however, this book is a notable contribution to the subject of agricultural output and should be of use to all students in the field of agricultural economics and to those concerned with agricultural policy.

*North Carolina State College,* G. W. FORSTER
*University of North Carolina*

*Employment in Manufacturing, 1899–1939.* By Solomon Fabricant. New York: National Bureau of Economic Research, 1942. Pp. xv, 358. $3.00.

The author of this work writes, "perhaps the most striking figure in this report is . . . the estimate of the drop in man-hour requirements per unit of fabri-

cated product during the 38 years following 1899." The backbone of the work consists of a compilation of data showing numbers employed, physical output per year, employment per unit of product, man hours worked and man hours per unit of product for fifty manufacturing industries in the United States, usually at quinquennial intervals from 1899 to 1919 and at biennial intervals since 1919. Aggregate data for all manufactures are also shown.

But the book contains much more than this raw compilation. A much larger number of pages is devoted to the analysis of derived tables in the forepart of the book. This analysis includes a study of rates of retardation (decline in proportional rates of growth); and rank correlation of proportional changes of various factors over the whole period, 1899–1939, by industries.

For example, the author discovers a low grade positive correlation (p. 88) between proportional changes in numbers employed and proportional changes in output per year per man employed. He is inclined to doubt the significance of this positive correlation in view of the fact that his sample is not large. If his changes had been measured over a short time one would agree that the result was a statistical accident, in view of the findings of Douglas, and others, that in the short run output per man per year tends to decline when employment increases. However, when the changes are measured over a whole generation it would seem to be quite possible that there could be a significant positive correlation between these two variables. This result could be brought about not by any direct positive relation between them but rather by the joint effect of other factors operating on them both in the long run. The short run disemploying effect of greater output per man may in the long run tend to be overcome by increased output, which is itself positively correlated with the forces causing improved output per man.

Page 345 shows that the retardation of increase of output per year per man (or decrease of employment per unit of product) has been very great since 1929. The increase from 1929 to 1937 for manufacturing industry as a whole was only one per cent as compared with an increase of 39 per cent in the decade from 1919 to 1929. This one per cent figure is in line with estimates made by this reviewer of the increase in output per man employed for *all* industry in the same period of time, which was also one per cent. (See this *Journal*, Vol. VII, p. 46, Table II. Accumulate the second column of percentages). There is no reason why the figure for all industry should be exactly the same as for manufactures; but the two figures confirm the conclusion that there was little improvement in industrial output per man in the stated period.

*University of Florida* MONTGOMERY D. ANDERSON

*Financial Policies of Business Enterprise.* By W. Bayard Taylor. New York: Appleton Century, 1942. Pp. xxi, 867. $4.25.

Writers of textbooks on private financial policies face many difficult decisions. They must determine the scope and sequence of subject matter, the emphasis to be accorded the corporate form, the balance between descriptive and analytical material, the amount of historical background, the space to be de-

voted to financial institutions which service enterprise, the extent of their excursion into corporation law, the development of financial principles and their implementation into financial policies, and, inevitably, the definition of their own economic philosophy. Some writers reduce these difficulties by restricting their efforts to special purpose texts relying heavily on other courses in business law, accounting, and related fields to provide essential background for the student's work in financial analysis.

The present volume makes no such assumption. It is a general purpose text weighted somewhat heavily in the direction of the historical, legal and descriptive. Part I is devoted to the evolution of business units and a comparison of the several types. Part II deals with incorporation and internal corporate controls, while Part III describes and defines the various types of security contracts. These three sections absorb some 255 of the 846 pages. Part IV treats the management of fixed capital including the problem of capitalization, but the author returns again to valuation and capitalization in Part VII. Part V provides a meaty and acceptable discussion of the management of working capital and income, while Part VI explains financial statements, financial ratios, and business reports. Part VIII is devoted to the capital market and security exchanges. Part IX which covers but one-seventh of the text, is reserved for expansion, business failures, and reorganization in which the treatment is penetrating but relatively inadequate, especially with respect to reorganization.

The book is a product of mature scholarship and sober judgment. Financial principles are soundly integrated into a framework of general economic theory and business policy which, for the author, are complementary rather than conflicting facets of the system of private enterprise. The approach is realistic and the philosophy liberal. The several topics are logically developed and the style has the virtues of clarity and precision though the problem of semantics in an area of conflicting legal, accounting and economic categories plagues the author.

Despite the high standard of achievement there are a few qualifications which should be noted. The treatment of privileged subscriptions (pp. 246–248) is faulty in that the author does not indicate whether he is discussing the value of rights before or after the stock has sold "ex-rights". Confusion is compounded by an illustration in which the buyer of rights and shares is assumed to pay $75 for the combination only to have the shares sell at $71.67 after the completion of the subscription plan. Again, the functional value of the text would have been greatly augmented if it had incorporated more implemental suggestions which would enable the student to translate his knowledge of principles into the specific analysis of financial policies. Symptomatic of this limitation is the treatment of financial ratios in a separate section of the book instead of integrating them into the appropriate areas of financial policy. Despite these reservations the subject is well developed and lucidly expressed. It should prove a very useful text.

*University of North Carolina* JOHN B. WOOSLEY

*Accounts Receivable Financing.* By Raymond J. Saulnier and Neil H. Jacoby. New York: National Bureau of Economic Research, 1943. Pp. xviii, 157. $2.00.

This book is the second in a projected series of four technical studies to be made by the authors for the National Bureau of Economic Research under its Financial Research Program. As was the case with the first volume, *Term Lending to Business*, the study is factual in nature, describing very clearly the nature of accounts receivable financing and the conditions under which such financing is used.

Accounts receivable financing is defined as "a continuing arrangement through which a financing agency makes funds available to a business concern by purchasing its invoices or accounts receivable over a period of time (factoring), or by making advances or loans, taking one or a series of assignments of accounts as primary collateral security (non-notification financing)" (p. 1). While the factor is the only type of institution covered in the study which advances funds through the outright purchase of accounts, both commercial finance companies and commercial banks are discussed as suppliers of credit on a non-notification basis. For these three types of institutions, the study analyzes the volume of such business handled, the personnel and the nature of the facilities provided for carrying on this type of lending operation, the character of the clients, and the policies of each type of lender with respect to the size of credits extended, the percentage of the face amount of the account customarily advanced, the credit standards of and methods of applying the standards by the lenders, and the charges. Also, an effort is made to estimate the profitability of this type of loan to the lender.

The analysis of the clients making use of accounts receivable financing is not particularly enlightening. Such businesses are recognized as usually being financially weak, a fact which is normally taken for granted. Some data are presented to support this conclusion, but a more thorough investigation of this problem would have resulted in a much more complete picture of the whole field of accounts receivable financing.

*University of Florida* JOHN B. MCFERRIN

*The Tragedy of European Labor, 1918–1939.* By Adolph Sturmthal. New York: Columbia University Press, 1943. Pp. x, 389. $3.50.

This book, surveying the European labor movement during the period between the wars, contains many lessons for American labor and for European labor in the post-war period.

Before the depression became severe in 1931, Socialist-Labor parties in Europe had polled 26 million votes and had 1,300 members of parliaments, while some 360 daily papers in Europe spoke for labor. These figures do not include the Communists. A labor party was in power in Germany during the 1920's, in Britain from 1929 to 1931, and in France in 1936, 1937, and again for a brief period in 1938. In each country, the labor governments were replaced. It is Professor Sturmthal's thesis that European labor failed in the 1920's and 1930's because

of its pressure-group outlook, its economic orthodoxy, and its lack of initiative and self-confidence.

Professor Sturmthal points out that the political leaders of labor in Germany and England were "inflexible conservatives in economic policy" and that the labor and conservative business-cycle policy were practically the same, both strongly favoring maintenance of the gold standard and existing currency parities, budget balancing rather than deficit spending, free trade, and laissez-faire or non-interference with business on the grounds that capitalism had to be run by capitalist rules. As a result of a belief in the gold standard and depression as a purifier, labor in Germany, England, and France lacked a real program for overcoming the economic crisis and left the decisive impetus for monetary experiments and economic expansion to elements outside the labor movement.

Labor's orthodox economic policies combined with pressure-group policies led, during depression periods, to prolonged struggles and stalemates that gave fascism a splendid opportunity. Labor lost out because it did not reconcile national and class interests and failed to develop satisfactory financial, agricultural, foreign, and social policies. It was too narrow in its interests.

Not only did labor in Europe fail to seize the initiative in the field of economic policy, but a sort of Marxian fatalism seemed to prevent bold action in crises, on the ground that the time was not yet ripe. That was true in Italy when Mussolini came into power and in Germany on many occasions. As Professor Sturmthal points out, Scandinavian labor, especially in Sweden, was more successful, partly because it favored an unorthodox or expansionist economic program during the 1930's. Since economics professors or former ones played important roles in formulating the economic policies of European labor groups, perhaps one conclusion is that the Swedish professors have been better "political economists."

The book raises two questions for the future: Has European labor outgrown its pressure-group mentality and its laissez-faire philosophy so that it can provide leadership for the task of European reconstruction on a democratic basis? Will American labor follow the narrow pressure-group policies that led to failure in Europe in the 1920's and 1930's? Our war-time experience with national economic policy, as well as with the question of labor representation in the formulation of Federal policies, does not augur too well for the post-war period. Partly it has been, of course, a matter of background, personnel and understanding. But there is still the problem of reconciling national and class interests, with labor officials competing with one another for leadership in a divided labor movement. When discussing labor leadership or statesmanship it is well to bear in mind that labor officials are elected by the members of their own unions.

*Duke University* RICHARD A. LESTER

*Readings in the Social Control of Industry.* By a Committee of The American Economic Association (Edgar M. Hoover, Chairman). Philadelphia: The Blakiston Company, 1942. Pp. viii, 497. $2.75.

This book contains a selection of articles which have been published in recent years on the social control of industry. The book is sponsored by the American

Economic Association and the articles were selected by a committee of which Professor Edgar M. Hoover, Jr. was chairman. It is the first of a series of books designed to bring together in convenient form articles of permanent interest in various economic fields.

The crucial problem of every democratic society is to control industry for social ends and at the same time to maintain democracy. In other words, the problem is that of economic democracy. This book is a valuable contribution because it brings together important articles on many aspects of the problem.

The articles selected for the present volume are of high caliber and set a standard which it is hoped subsequent volumes will maintain. Many of the articles are concerned with the economic and legal aspects of problems involved in the control of industry through the work of the various federal agencies involved. Other articles, however, are concerned with discussing, in broader outline, the theoretical problems of social control and the inherent value judgments.

The following articles are particularly good and will indicate the scope of articles selected: (1) Paul T. Homan's article, "Notes on the Anti-Trust Law Policy", should be read first because it sets forth the basic assumptions that underlie most of the articles and indicates the general nature of the problems involved. (2) Milton Handler's article, "Unfair Competition", is a highly technical article on the development of the legal concept of unfair competition. (3) Horace M. Gray's article, "The Passing of the Public Utility Concept", develops the convincing thesis that the concept of public utility as a basis for regulation is outmoded and destined to decline in importance. (4) J. M. Clark's article, "Toward a Concept of Workable Competition", is concerned with the relationship of economic theory to the social control of industry.

It is hardly feasible to attempt to criticize such a varied collection of articles individually, but it is possible to indicate several general lines of thought that run throughout most of the articles.

(1) Economic theory in its present stage of development is still inadequate to deal with many of the problems involved in the social control of industry. Detailed industry studies, with emphasis on price policy, are greatly needed.

(2) The solution of problems of social control depends on a close coordination of law and economics. The problems are primarily institutional in character.

(3) Social control of industry has been inadequate in the past. We are faced with the important problem of developing adequate controls, and as yet the nature of the necessary controls is only vaguely comprehended.

*The U. S. Treasury* — John Gunther

*The Labor Relations Act in the Courts.* By Herbert O. Eby. New York: Harper and Brothers, 1943. Pp. xvii, 250. $3.50.

*The Closed Shop.* By Rev. Jerome L. Toner. Washington, D. C.: American Council on Public Affairs, 1942. Pp. viii, 205. $2.75.

Mr. Eby's volume constitutes an excellent handbook on the meaning of the National Labor Relations Act as interpreted by the courts. The book is a model of clear arrangement. Fourteen major aspects of the Act, including jurisdiction, employer and employee rights and responsibilities, collective bargaining,

company unions, due process, and judicial review, are considered in as many chapters. Each chapter carries a brief introduction by Mr. Eby. Court decisions are then summarized under appropriate subheadings. More than 150 cases are cited.

*The Labor Relations Act in the Courts* has material value for both employers and unions. For instance, many employers probably will be gratified to discover the content of court decisions on their right to speak freely on the subject of labor relations. Again, the nature of decisions on back-pay awards has obvious importance for unions and employers alike. For students of labor relations, the book throws much light on the institutional arrangements that the courts have sanctioned on the foundation provided by the Act.

The National Labor Relations Act, by serving as a powerful stimulus to union organization, undoubtedly has increased the importance of the closed shop in American industry. This fact, coupled with the union-maintenance decisions of the National War Labor Board, lend timeliness to Father Toner's volume. In *The Closed Shop*, Father Toner traces sympathetically the development of this form of union-employer relationship. The historical analysis is marred considerably by emphasis upon guild practices in the pre-industrial era. There are good chapters on the long "open shop" campaign by various employer associations and on the functions of the closed shop as conceived by the unions. An interesting chapter deals with union-management relations on the railroads where the closed shop as such does not exist. The book contains a discussion of the attitude of the Church on the closed shop issue.

Two major criticisms may be made of the book. One is that it was written almost entirely from secondary sources. We need a number of careful case studies of the actual operation of closed shop arrangements under various industrial settings. Perhaps it was not properly Father Toner's function to make such studies. The second criticism relates to a curious omission. Nowhere in this volume is there any consideration of the relation of the individual worker to the union. The more power the unions acquire over jobs, the more important becomes the problem of the maintenance of the democratic rights of workers within unions. For example, there must be provision—and such provision is found in most unions—for the fair, orderly, and impartial trial of all charges involving union discipline. Indeed, there is a whole cluster of problems of this nature that deserves attention.

*Bureau of Labor Statistics* H. M. DOUTY
*U. S. Department of Labor*

*The Economics of Competitive Bidding in the Sale of Securities.* By John Frederick Weston. Chicago: The University of Chicago Press, 1943. Pp. ix, 51. $1.00.

This book is Volume XIII, Number I, Studies in Business Administration. The School of Business, The University of Chicago.

For some years the relative merits of competitive bidding as against sales of new securities by negotiation has been a matter of more or less heated discussion.

In the field of public utilities the advocates of competitive bidding by underwriters of new issues of stocks and bonds have practically won their arguments. [Since 1919 when the state of Massachusetts enacted a law requiring competitive bidding for new bond issues by gas and electric companies, a number of states have passed laws requiring competitive bidding. Since 1926 the Interstate Commerce Commission has required competitive bidding in the case of equipment-trust certificates. Since May 7, 1941, the Securities and Exchange Commission has required competitive bidding in the sale of new issues by public utilities.]

However, advocates of competitive bidding have not fared so well in other fields. Here the argument is far from decided. Our author attempts to give the arguments on both sides of the dispute and weigh them as impartially as the available data permit.

As to competitive bidding in the public utility field the author concludes that, "The competitive-bidding rule is superior in that it involves less delay, less expense, and fewer administrative problems than the affiliate rule. The major weakness of the competitive-bidding rule is that it will give false assurance that competitive conditions will prevail. It may lull the public into a false sense of security. In other words, it is an apparent, but not a real, solution to the problem of noncompetitive conditions in the investment banking industry."

As to the sale of new securities in general the author concludes that, "Compulsory competitive bidding imposed upon an oligopolistic industry (with particular emphasis upon the investment bankers as heteropsonists) will not automatically insure competitive behavior."

He feels, however, that, "In spite of its imperfections, compulsory competitive bidding is the superior present alternative, because it makes it most difficult for oligopolistic patterns of behavior to be carried out. But its limitations must be realized. It will not eliminate noncompetitive behavior. The degree to which it does will depend upon the vigor and alertness of the regulatory agencies who administer the rule."

As the author sees it the problem is, "Whether competitive bidding will produce competitive prices without introducing serious weaknesses in the mechanism for selling corporate securities."

In his analysis of the issue the author uses two methods. First, he examines at some length the T.N.E.C. Hearings and the various studies of the S.E.C. He also summarizes reports made by various banking houses on competitive bidding and concludes that the available data are incomplete and inconclusive and prove very little either for or against competitive bidding. He, therefore, falls back on his second method of procedure whereby he makes an analysis of the nature of the investment banking business.

In making this analysis he attempts to use the tools of recent writers on imperfect competition. Such terms as "oligopoly", "oligopsony", "monopoly", "circular homeopoly", "circular homeopsony", "circular heteropoly", "circular heteropsony", are found throughout the text and are used to describe the nature of the investment banking business. The author finds that this business is a

partial oligopoly in that there are many firms in the investment field but only a few do a major portion of the underwriting of new issues.

The reviewer is very doubtful as to the value of these concepts as used by the author. The use of these terms appears to bias him unconsciously in favor of the merits of perfect competition. The very atmosphere surrounding these concepts makes him believe without adequate argument that noncompetitive practices lead to uneconomic ends and perfect competition leads to the most desirable economic results. Why should perfect competition in an unbalanced world give more satisfactory results than administered prices under a reasonable degree of control by the public? The author's tentative conclusion as to the relative merits of competitive bidding and negotiated sales indicates that he is at least partially conscious of the relevancy of this criticism.

Furthermore, the author does not properly distinguish between perfect competition and severe competition. The competition of a few large competing firms may result in as low costs and as high prices to the issuer of securities as perfect competition, and, moreover, supervision may be easier than if many firms are involved.

The study is written in a very interesting style. It is divided into eight chapters. Chapter III, "Economic Problems Raised by the Existence of Noncompetitive Practices in the Investment Banking Industry", and chapter IV, "The Pricing Process", are outstanding. The Bibliography is fairly complete and makes a valuable addition to the work. The author has defined many of the basic problems involved in the subject and has made a good beginning in the discussion of a very important subject in public policy.

*Ohio State University* CHARLES A. DICE

*Business Behavior 1919–1922: An Account of Post-War Inflation and Depression.* By Wilson F. Payne. Chicago: The University of Chicago Press, 1942. Pp. xi, 215. $1.50.

This book presents a pragmatic study of business fluctuations occurring in this country during the critical transition years after the first World War. The broad outlines of this cyclical feature are in accordance with the development shown by other writers, for instance by Charles O. Hardy in his paper on "Adjustments and Maladjustments in the United States after the First World War", *American Economic Review*, XXXII, No. 1, Part 2, *Supplement*, March, 1942. They also correspond largely to a general pattern of post-war phases.

A contraction period of short duration and small amplitude turned into prosperity, because market conditions at home and abroad surpassed the disappearing opportunities for production and employment in war industries. The primary force in this movement was consumers' demand. Particularly accentuated in the field of luxury goods and high grade material, the prices of these articles eventually attained such heights that the buying public refused to pay them. The domestic demand was supplemented by exports as long as they were promoted by credits and foreign exchange rates. This whole situation stimulated investment in fixed capital and increased the need for working capital.

The boom arising from the magnifying effects, spread through interconnected industrial sections, reached its limits and shrank in a self-generating process to deep depression, aggravated by a changed credit policy. It was again the rising demand for consumers' goods which brought contraction to an end after available purchasing power had been set free by sufficiently attractive prices. Sales and inventory replacements in retail trade started the cumulative expansion of business activities. In this revival durable consumers' goods played a particular part.

The uniformity of this process was, however, modified because time-series in many fields of manufacturing and wholesale distribution showed movements of their own. Considerable lags as to timing and intensity of output and prices can be noticed. Discrepancies in the turning points may be seen, moreover, as due to differences in market organisation and to traditions in determining the actual volume of production. External events, such as strikes in key industries, result in shortages and tie-ups in transportation affecting the entire economic system. Since they stop expansion abruptly and their sudden removal reduces the difficulties of production they cause the "raggedness" of fluctuations which is a characteristic of the period covered by the study. These conditions are reflected in the anticipations of business men. They lead at one time to unwarranted overreaching, at another to the hasty cancellation of orders. In the author's opinion the different attitudes of producers in various industries and of dealers regarding the prospective developments are the main influences on the rhythm of business activity. This interpretation might, admittedly, minimize the role of other major factors.

Mr. Payne keeps scrupulously within the historical boundaries of his study, avoiding however the danger of allowing the great mass of detail to blur the distinctiveness of the general picture which he draws. The quantitative information is well chosen and organized and is displayed in numerous tabulations and charts. It refers to five representative groups of commodities: leather and shoes; textiles (cotton, wool, silk); iron, steel, coke and bituminous coal; automobiles; building and allied industries. It covers all the operations from the production of raw material to the marketing of finished goods. This analysis is especially effective because of the writer's intimate knowledge of technical details. Finally, the combination of all these items makes possible an all-pervasive view and brings to light the complex interdependence of various economic areas and the interplay of the numerous determining factors and conditions. The prospect is further widened by the general financial setting and by the author's suggestive emphasis on the subjective behavior of certain groups of business men.

The author makes no attempt either to introduce new theoretical concepts or to alter or confirm existing ones. Nevertheless the theoretical yield of the study should not be overlooked. The material illustrates both by the manner of its selection and by its analysis a number of significant typical cyclical phenomena. The methodological procedure is careful, paying attention to the fundamental limitations of certain statistical devices. However, the author's

"index of gravitation pull", used to interpret the movement of international transactions, should also be employed with critical reluctance. Even though it is of minor importance for the author's immediate practical purpose, it requires a deeper theoretical foundation than it was possible to establish within the limits of this study.

*University of North Carolina* FRANZ GUTMANN

*The Machiavellians.* By James Burnham. New York: The John Day Co., 1943. Pp. 270. $2.50.

There is nothing obligatory about this classification of certain political writers as Machiavellians. They might have been called realists, hard-heads, or scientific minds, in contrast to a larger group of idealists, utopians, dreamers, and moralists. But Mr. Burnham's epithet is as apt as any and is perhaps the most expressive.

A preliminary chapter of this book takes up Dante's *De Monarchia* as an example of non-Machiavellian thought. Later sections deal with Machiavelli himself, and with Mosca, Sorel, Michels, and especially Pareto.

The chapter on Dante is concerned exclusively with the *De Monarchia* which, as Burnham states, is medieval, unscientific, and scholastic in spirit. But strict justice to Dante would demand some reference to the political views expressed in the *Divine Comedy*. The reality which confronted Dante was the "Balkanization" of Italy and the world (to use a modern phrase), and the consequent anarchy, strife, and warfare. His dream was that of the *pax romana*, something that had really existed. Like Mr. Burnham in his "Managerial Revolution", Dante longed for the unification of large areas. He saw in advance what intense petty nationalisms and greed (symbolized by the wolf) would do. After six hundred years of mutual slaughter among Christians, some of us, including Mr. Burnham, are beginning to see the function of nationalism and greed.

Of the true Machiavellians, the founder of the order comes first. Mr. Burnham, like others of his intellectual family, is fascinated by that bright, clear mind. If Machiavelli offends, it is merely because many people, especially Anglo-Saxons, shy from reality and the truth. "The distinguishing quality of Anglo-Saxon politics has always been hypocrisy." "If the political truths stated or approximated by Machiavelli were widely known by men, the success of tyranny and all the other forms of oppressive political rule would become much less likely." Machiavelli appeals to Mr. Burnham as light and realism appeal.

Many Americans will resent this indulgence. Our world dislikes realism: when faced with it, as on the battle front, a fifth of the casualties are nervous, psychopathic cases. Too many political and commercial interests are involved in keeping us childlike, immature, gullible, and suggestible, believers in abstractions, in Cinderella stories, in Superman, and in armies from Mars. If Mr. Burnham could convert us to Machiavelli on a large scale, there would be cause for alarm.

After presenting Machiavelli, Mr. Burnham jumps over some four hundred years (in which I suspect there are other Machiavellians) and comes to Gaetano

Mosca, who died in 1941. Mosca's great contribution to realistic thought was his theory of the ruling class, his refutation of the democratic idea that the masses can rule themselves. Actual rule, as all experience shows, is by organized minorities.

A religion has supernatural elements, a political faith has myths, which Georges Sorel (1847–1922) studies. "A great myth makes a social movement serious, formidable, and heroic. But this it would not do unless the myth inspired and was in turn sustained by violence." This violence is generally hidden or covered up in our humanitarian and pacifist ideologies by cunning and fraud. Sorel sees the decline of our world in the reluctance to use force, in the decided preference for chicanery, trickery, and fraud.

Robert Michels (1876–1936) reveals the "iron law of oligarchy". According to his view, all organization demands leaders who necessarily exercise control. "A democratic ideal of self-government is impossible." Even in socialism, "the socialists might conquer, but not socialism, which would perish in the moment of its adherents' triumph."

Democracy declines inevitably into "Bonapartism", in which a leader acts alone as the representative of the "people". "The Bonapartist leader claims . . . to be the most perfect embodiment of the will of the group. Everything, therefore, is permitted to him." Parliaments may continue, as in Italy, but are subordinate. Bonapartism, according to Michels, is the logical culmination of democracy. The tendency has reached maturity in Germany, Russia and Italy, and is plainly marked in England and the United States.

The last and most important of the Machiavellians is Pareto whose work has been translated into English under the title of "The Mind and Society." Pareto, unlike the rationalists of the Age of Reason, has no illusions concerning man's logical tendencies. He shows the enormous rôle of non-logical beliefs and actions. "Taboos, magic, superstition, personified abstractions, myths, gods, empty verbalisms, in every culture and in every period of history express man's persisting non-logical impulses." "Gods and goddesses like Athena or Janus or Ammon are replaced by new divinities such as Progress and Humanity and even Science; hymns to Jupiter give way to invocations to the People." Words like "liberty, equality, fraternity" mean anything: they appear over the entrances to French prisons. An encyclopedia would be required to list the slogans, ideals, programs, declarations, delicious freedoms, and heptalogues that serve as rationalizations or to arouse emotions.

Pareto, like the other Machiavellians, dismisses the idea of majorities ruling themselves. Every society has its leaders, its rulers, who constitute the élite and who maintain themselves through force or shrewdness. In a new revolutionary government the forceful predominate, but in time the fraudulent tend to prevail. The élites of our modern democracies, needless to say, are heavily weighted with those who depend principally on oratory, lies, guile, and fraud. Such societies, in Pareto's theory, are due to change.

A final chapter of this unconventional book deals with "politics and truth". Mr. Burnham believes that an objective science of society is possible; that the

subject matter of political science is the struggle for power; that principles, slogans, words, beliefs, moralities, abstractions, etc., cannot be taken at face value; that rational action plays a small part in political and social change; that the most important classes are the ruling and the ruled, the élite and non-élite; that political science is a study of the élite, whose primary object is to maintain its power and privileges,—and so on (there are thirteen of these points). Mr. Burnham appears to anticipate in the United States a Bonapartist system in which a president or leader may create or imagine a super-emergency or declare his intention to act without the authorization of Congress in the name and for the interest of the Sovereign People.

The Machiavellians are a tough, profane, but interesting lot. They offend some good people, the tender-minded, lambs forever shorn. But they probably cause less suffering in the world than the idealists who want to crusade and kill.

One reproach that might be made against Mr. Burnham is his omission of Lawrence Dennis, a Machiavellian if there ever was one, to whose *Dynamics of War and Revolution* Mr. Burnham himself seems peculiarly indebted.

*University of North Carolina* H. R. Huse

*National Consciousness.* By Walter Sulzbach. Washington: American Council on Public Affairs, 1942. Pp. x. 166. $3.00.

In *National Consciousness* Prof. Sulzbach is expanding his thesis established in *National Consciousness and Economic Interest* (published in 1929), i.e., the impossibility of explaining nationalism and imperialism in purely economic terms.

The approach to this study is psychological and sociological. The examination is conducted from the following two points of view: "that of the individuals making up the nation and that of the nation as an entity."

The first part of the book consists of a survey, with solid documentation, of the most popularly accepted analyses of "national consciousness" such as historical foundations of national consciousness, the racial basis of national formation, the nature and meaning of national character as productive of national consciousness, the influence of language, geography, tradition, and community of interests on unity and antipathy within national groups. The general conclusion is that no one or no combination of these analyses adequately explains national consciousness.

The chief value of these theses lies in their weight as psychological contributions in the development of the feeling of national consciousness. In addition, there are certain contributory forces promoting this feeling such as the love of home and homeland, segregation, the satisfaction of "belonging" to one group, the fighting impulse and man's metaphysical need.

Sulzbach's theory of the importance of the "in-group" as opposed to the "out-group" is not unlike Giddings' theory of the "consciousness of kind." The in-group-out-group relationship, as the author sees it, is preserved through the operation of the fighting impulse, and herein lies the real basis of national consciousness. National consciousness, then, is a group phenomenon based on a conflict

of will and not of interests, from which lies the hope for a change in the present militant form of national consciousness by:

(1) the sublimation of the fighting instinct between nations to smaller groups and by:

(2) the development of a feeling of indifference towards problems now causing the most friction between nations.

This book makes an important scholarly contribution to a relatively virgin field of exploration, i.e., national consciousness from the sociological and psychological standpoint.

*Queens College* MARGARET McD. DOUGLAS

*Introductory Accounting.* By Donald H. Kennedy, George R. Esterly, and William J. von Minden. New York: The Ronald Press, 1942. Pp. 702. $4.50.

Although most first year or introductory text books on accounting have much in common, they usually differ in their method of approach, the relative emphasis on certain procedures and principles, or in their style of presentation. This text differs from others chiefly in its approach. Quoting from the preface: ". . . this text approaches the study of accounting through an examination first of the Profit & Loss Statement."

After the introductory chapter in which the authors explain the need for and the kinds of accounting services, they proceed at once to the explanation and analysis of the financial statements, devoting eight chapters to the following topics: profit & loss statement; balance sheet; statements of surplus and partners' capitals; item relationships which exist between these statements; ratio analysis of the profit & loss statement; ratio analysis of the balance sheet; statement of resources provided and applied. It is the belief of the authors that through showing the student the uses of accounting data, an increased interest in this study will result.

These nine chapters are followed by the material usually found in beginning texts, consisting of business forms and practices, rules for recording, books of original entry, ledgers and accounts, a full treatment of adjustments, closing the ledger, and work sheets. There is also a chapter on "modern recording techniques." An unusual feature of this division is the lack of emphasis on "journalizing" and the quick introduction of the student to special columnar journals.

One chapter (which appears to be adequate) is given to a discussion of partnership problems, followed by two chapters on the corporation. Long term corporate obligations, the control of costs, budgetary control, and trends in corporate reports are discussed in subsequent chapters.

A good selection of questions and problems is given at the end of each chapter and two fairly short practice sets which do not require specially printed or ruled forms for their solution are included. The variety of topics covered, and the generous supply of problem material makes the text adaptable to various teaching or time schedules. The text is written in a lively style and there are many small but commendable features which make this an attractive first year text.

*University of Florida* D. M. BEIGHTS

*Accounting Fundamentals.* By Richard E. Strahlem. New York: The Ronald Press, 1942. Pp. 365. $3.50.

Although there are no universities offering one three-hour course in which a student is presumed to obtain a knowledge of the fundamentals of medicine, law, or engineering, there are, unfortunately, still some universities offering a single course in which professional students are expected to obtain a knowledge of the fundamentals of accounting. Under such circumstances, the text usually discusses the mechanical bookkeeping procedures and routines; or a discussion of accounting questions involving problems of valuation, income determination and measurement, financial reporting, analysis and interpretation of financial reports and other significant material is given; or a combination of the above is attempted with varying degrees of emphasis. This text follows the third plan.

After explaining the meaning of items usually found in financial statements in the first two chapters, the author discusses in the next five chapters the accounts, business forms and procedures, and books of record, including the voucher system and expense control. Three chapters are given to a discussion of closing and adjusting entries, (and in that order) with an additional short chapter on the manufacturing worksheet. Four chapters are used to explain cost systems and the procedures used in accounting for materials, labor, and factory burden in a cost system. The three concluding chapters are devoted to a discussion of routine accounting for assets, liabilities and net worth of a corporation, and statement analysis. Questions and problems in keeping with the elementary nature of the text are given for each chapter, with a short practice set on job-order costs. The text is lucidly written and was planned primarily for industrial and engineering classes where it has been in use.

*University of Florida* D. M. Beights

*Do We Want A Federal Sales Tax?* By Charles O. Hardy. Washington, D. C.: The Brookings Institution, 1943. Paper, 25¢.

This pamphlet, though called a "study," is not a research report but a *brief* for a federal sales tax and a specification of the sort of sales tax Hardy favors. As those persons acquainted with Dr. Hardy's work would expect, he presents his case with enthusiasm, persuasiveness, and confidence. Hardy favors a sales tax because (a) it would reach a large group who now pay but little in federal taxes; (b) it is not inconsistent to favor such a tax in war and oppose it in peacetime; (c) there is a danger of an upset in the price-income structure. He favors a *retail* tax because (a) a turnover tax would be inequitable, would interfere with price control, and would be administratively objectionable; (b) a manufacturers' tax involves inequalities and administrative difficulties (the latter are predicated on a fundamental error); (c) a wholesale tax would be hard to administer; (d) a retail tax would not greatly change the structure of our economy; (e) a retail tax would be convenient to pay; (f) American consumers are more familiar with a retail than with any other type of general sales tax; and (g) a retail sales tax would not seriously interfere with price control. He favors a 10 per cent or higher rate tax with food exempt or with an exemption dole in the form of coupons.

Hardy contends that a sales tax would be easy to administer because, through the use of stamps, as in Ohio, "evasion can be prevented at very small cost of policing" (p. 18). He does not point out that Ohio had entirely unsuccessful administration until a modern audit plan was initiated; that, in fact, that state spends more than the average state per dollar of revenue on auditing; and that in the aggregate—including all the gadgets—it pours into the job over three times as much money per unit of revenue as do those states which do a better job of enforcing the tax, e.g., California and Illinois. Apparently, Hardy would have no taxpayers' returns (p. 32). In that judgment, he not only repudiates all state experience but also in a sense holds of no account the British and dominion practices in connection with other kinds of sales taxes. The author's care to avoid complications by becoming practical is perhaps best illustrated in the brushing aside of the difficulties and expenses of distributing hundreds of millions of exemption certificates, each lot to the right person and in no case two to an individual, of the terrific strain his system would place on business, and of the cost of the rehandling which he envisages after he decides to make his sales tax in part an implement for initiating a forced loan.

It really is a pity that so eloquent a plea should not have been revised before publication by somebody acquainted with the practical operating problems of taxation.

*University of Kentucky* James W. Martin

*Consumers and the Market.* By Margaret G. Reid. New York: F. S. Crofts & Co., 1942. Pp. xvii, 617. $3.85.

Progress and developments relevant to consumer marketing during the four years since the second edition of this book form the basis for changes made in the third edition. Greater attention is given to the consumer movement. Data from important surveys like that of the Twentieth Century Fund on distribution costs replaces information and estimates formerly used. Recent legislation such as the Food, Drug, and Cosmetic Act of 1938, and the Wheeler-Lea Act, presented in the Appendix of the 2nd edition are now incorporated in a chapter on "Legal Quality and Information Requirements." Wartime regulations restricting consumer credit and controlling prices are also discussed.

Basically, the organization of the text is not changed. No change is made in the chapter on Salesmanship which is still given inadequate attention for a book on consumer buying. The whole field of distributive education that has developed since 1938 is neglected. In the reviewer's opinion this is the greatest weakness in an otherwise excellent text, a substantial part of which has been rewritten for the third edition.

*University of Arkansas* Pearce C. Kelley

*Principles of Marketing.* By Fred E. Clark. New York: Macmillan Co., 1942. Pp. xx, 828. $4.50.

During the twenty years since the second revised edition of this book appeared many developments affecting marketing have taken place. The present revision represents a well balanced evaluation of the relative importance of these develop-

ments. Without changing the basic character of the earlier editions, new material has been incorporated by rewriting and the addition of several new chapters. In particular the expanded discussion of contract chains is unusually good for a general text on marketing. A new chapter on "The Consumer and Marketing" is excellent. The two chapters devoted to legislation affecting and controlling marketing cover this subject admirably except for the customary slighting of distributive education, although the enabling George-Deen Act is mentioned once. Professors of marketing will find the guides for student reports contained in the appendix a valuable addition to this excellent text.

*University of Arkansas* PEARCE C. KELLEY

*Principles of Selling*. By H. Nixon. New York: McGraw-Hill Book Co., 1942. Pp. xiii, 361. $2.50.

This revision of the 1931 edition has been changed mainly by the addition of more introductory material elaborating on the history and importance of selling, including brief reference to the consumer movement. The same nine principles of selling are presented with very little change in either wording or contents. Even the chapter on "Applying the Principles in Retail Selling" is virtually unchanged in spite of the strides made in vocational education in this field since 1938. As in the earlier edition, the material is presented in a concise and understandable manner.

*University of Arkansas* PEARCE C. KELLEY

*Comparative Economic Systems*, Revised Edition. By William N. Loucks and J. Weldon Hoot. New York: Harper and Brothers, 1943. Pp. xiv, 918. $4.00.

This volume is a revision of the same authors' original excellent work of the same title, first published in 1938. A number of changes have been made in the present edition, and all current factual material has been brought up to date.

One of the most important changes which has been made is, in this reader's opinion, the inclusion of a section dealing with Capitalism, its institutions, successes, and failures. No such discussion of Capitalism was included in the original edition, on the theory that, if readers were not already acquainted with capitalistic principles, they could infer them from the discussion of other types of economies. While this may have been generally true, it appears that the inclusion of the section on Capitalism is a real improvement, since comparisons and contrasts between various types of economies may now be made with much more facility and clearness.

The section on Utopian Forerunners of Socialism and Communism has been cut considerably, now including only discussions of Economic Movements, Utopias, the Idea of Progress, and More's *Utopia*. The discussions of Fourier's "Harmony" and Bellamy's *Boston of the Year 2000*, contained in the 1938 edition, have been excluded. This is probably a beneficial change, since the treatment of these matters, although extremely interesting, seems not so important as the discussion of Capitalism which displaced it.

The excellent discussions of the Marxian Theory of Socialism and Communism, and of Modern Socialism and Communism, have been retained with only one slight change—consideration of the socialistic attack on capitalism has been merged with the discussion of the strength and weaknesses of capitalism.

Materials relating to the Economy of the Soviet Union, and to Fascism in Italy and Germany, have been thoroughly revised and brought up to date, and a portrayal of the methods by which the various systems achieve conversion to war economy has been included. This adds definitely to the value of these sections, since such factual narratives suffer from a high rate of obsolescence.

The section on Consumers' Cooperation remains substantially unchanged.

Certain changes have been made in the Appendix which render it one of the most important sections of the entire book. The Communist Manifesto, the Constitution of the U.S.S.R., the Italian Labor Charter, The Program of the National Socialist German Workers' Party, and the German Enabling Act remain. The American Socialist and Communist Party Platforms for 1940 have been substituted for those of 1936, and the Reichstag's Resolution of April 26, 1942, increasing the power of Hitler, has been added.

All in all, the changes made in the revised edition make a considerable improvement over the original work, and result further in making *Comparative Economic Systems* more than ever a most valuable book, both for the student of economic matters and for the layman.

*University of North Carolina* CLIFTON H. KREPS, JR.

# STATE NEWS

## ALABAMA

Industrial activity in Alabama during the first quarter of 1943 has expanded in the pre-war industrial classifications at a less rapid rate than it has during the past few years. The production of cement, coke, coal, and cotton textiles has remained at about the same level as a year ago. Coal output though greater than in previous years is still below the average yearly production of 1926–30. Building contracts for the first quarter of the year stand at 36 per cent above the first quarter of 1942, an increase which may be contrasted with a 26.3 per cent decline in 37 eastern states over the same period Activities in war industries cannot, of course, be disclosed. However, a fair indicator of industrial activity in all branches of both war and non-war production throughout the state is the index of "electrical energy consumption for industrial purposes only" as computed by the Bureau of Business Research of the University of Alabama. This index shows that the power used during the first quarter of this year was over twice the amount used during the same period of last year, three times that of the first quarter of 1941 and five times that used in the corresponding period of 1929.

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Commercial activity in the state presents a rather spotted pattern. Sales in nearly all divisions except gasoline and life insurance were generally higher than for the first quarter of previous years. Bank debits continue to rise, gaining 11 per cent over the first quarter of last year and 105.4 per cent over the same period of 1937. The February index of retail sales adjusted for seasonal variation, 1938–41 average month = 100, stood at 165.4, which represented an increase of 2.2 per cent above February of a year ago but a decline of 24.2 per cent from the previous month.

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Total tax collections for the State are showing a slight gain over those of a year ago. Total collections from October through April are 1.7 per cent above the same period of last year. Collections for that year were, however, 27 per cent above those of the previous year. Gasoline tax collections, the state's largest source of revenue dropped 18 per cent during the first half of the fiscal year, while automobile license tag collections declined less than one per cent. The loss in revenue from gasoline taxes was made up by gains of 15 per cent in income tax collections, 11 per cent in tobacco tax receipts, 16 per cent in sales taxes, 51 per cent in tax collections on gross receipts of railroads, and 22 per cent from mileage taxes levied on trucks and busses.

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Political activity during the first quarter has centered mainly on the inauguration of a new governor and his cabinet, and on the proceedings of the current

session of the state legislature. There has been no drastic house-cleaning in administrative personnel although many replacements have been necessary due to the active participation of state officials in war activities. The governor has announced a rather conservative program of expansion with "no new taxes". The surplus which has been accumulating in the treasury for the past few years will be allocated in large part by the current legislature. Several agencies will receive enlarged appropriations from this accumulation but education and old-age pensions seem to be the main contenders.

*University of Alabama* E. H. ANDERSON

### FLORIDA

Florida farmers and grove-owners enjoyed an all-time record cash income of $208,000,000 in 1942, a gain of 49 per cent over the previous year, according to the estimates of federal agricultural authorities. Nearly half of the farm income —$101,000,000—came from the citrus crop, whose value was nearly double that of the preceding year. The sale of other fruits and of vegetables produced $70,000,000, while sales of meat animals, poultry, eggs and milk totaled $37,000,000. The latter sources of cash income were about twenty-five per cent greater than in 1941.

Although it is too early to make estimates, the outlook for Florida agriculture in 1943 is bright, and there are prospects of another increase in the size of farm incomes. Prices are good in spite of ceilings on some products. Volume for the year will depend greatly upon future weather and labor conditions, but is expected to make new records. Freezes followed by dry weather considerably reduced the potato crop in the Hastings area, and caused smaller shipments of other early vegetables. On the other hand, movement to market of citrus, the state's most valuable crop, is running thirty per cent greater than a year ago, and prices are higher by about the same amount. Costs are also higher, but net income should show an increase. Labor, particularly to harvest crops, is a serious problem. The importation of considerable numbers of farm workers from the Bahamas has been resorted to in order to aid in meeting this situation.

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Business activity, as measured by debits to bank accounts, continues at a high level in most parts of the state. Jacksonville, Tampa and Pensacola report figures about 25 per cent greater than a year ago, an increase greater than that reported for the Sixth Federal Reserve district or for the entire United States. Department store sales in the first two cities also show a significant increase over a year ago, an increase greater than that reported for the Sixth district. In Miami, however, the improvement over a year ago is not great, and reflects the serious reduction in the number of freely-spending vacationing visitors to this resort area.

The current record volume of activity is a direct outcome of war conditions, resulting from high farm prices, increases in farm production, the great activity in the several shipbuilding yards of the state, and—the most important factor—the converting of the state into a major training area for the armed services.

The selection of Florida by the services has involved much construction or enlargement of airports, cantonments and other facilities such as new and improved roads. As these physical facilities have been completed, a greatly increased number of army and navy personnel has been brought here for training. Many service men have brought families, and many more have been visited by relatives and friends, and the resulting business development has helped offset, at least in part, the decline in construction activity. The presence of the service men and their friends and relatives has proved a boon to the hotels, apartment houses and rooming and boarding houses. The State Hotel Commission reports that, because of the presence of this group of "visitors", the winter "tourist" season has been financially successful in spite of the absence of many former vacationers.

The current wave of prosperity has developed labor shortages in industry and business as well as on the farms. The great expansion of shipbuilding in Florida has produced the greatest demand for labor. The War Manpower Commission has designated Tampa, Panama City and Pensacola as areas of acute labor shortage, and Jacksonville is shortly expected to be added to the list. In addition, the Commission has made a 48-hour week compulsory in Panama City and Tampa. In the latter city, business and office workers are being recruited to work 4-hour shifts in the shipyards after completing their normal day's work.

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The rationing of gasoline has brought a marked decline in the state revenues which come from a seven-cent tax on this commodity. During the first four months of 1943, collections were $5,000,000 or 45 per cent less than in the corresponding period of 1941. However, six cents of the tax is earmarked for the State Road Department (whose construction activities are largely suspended for the duration) and for payment of county bonds issued for road construction purposes. Thus the decreased revenue from this tax is not so serious as might at first appear. The suspension of horse-racing last winter meant a further loss of $3,500,000 in revenues which were earmarked for old age pensions and aid to counties. To replace this loss of revenue, Governor Holland has recommended to the State Legislature, which is now in session, a three-cent tax on cigarettes. The House is expected to approve such a tax, but favorable action by the Senate is less certain.

Except for the tax on cigarettes, Governor Holland has recommended no new taxes or increases of old ones. However numerous bills providing for a wide variety of new tax levies have been introduced in spite of their having small prospect of becoming law. The Governor has stated that, with the cigarette tax and economical administration, the state should be able successfully to finance its activities for the next biennium. The State Budget Commission, of which the Governor is chairman, recommended a general appropriation bill amounting to $21,000,000 for the two years, a decrease of $750,000 from the sum appropriated for the biennium now ending. The Senate Appropriations committee reduced the recommended total by $1,375,000 but the Senate restored

a portion of the committee's reductions and added an extra $7,000,000. The bill is now subject to the action of the House.

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Organized labor is under fire in both branches of the Legislature. Bills to outlaw the closed shop, to outlaw union strikes, to require union registration, to prevent picketing, and to provide state regulation of work-permit fees and membership—charges have been introduced but none has yet passed both branches. However, the Legislature has approved a constitutional amendment, to be submitted to the voters in 1944, which would prohibit the closed shop, though specifically preserving the right of collective bargaining.

*University of Florida* HARWOOD B. DOLBEARE

GEORGIA

Emory University, during the five day period from April 29th through May 3rd, played host to personnel officials from governmental agencies throughout the southeast. Problems of personnel were discussed by members of war agencies and military branches of the government. Agencies represented, in addition to the Army and Navy, included the War Production Board, the War Man Power Commission, the Office of Price Administration, the Office of Defense Transportation, the Department of Agriculture, and the Civil Service Commission. Arrangements for the conference were made by Mr. L. B. Travers of Washington, D. C. The local committee assisting Mr. Travers included Mr. John R. Garnett of the Department of Agriculture and Mr. James L. Campbell of the Civil Service Commission. Problems discussed by the conference included those of personnel training, personnel turnover, the allocation of available manpower, and other problems which have arisen because of the drain on the labor force caused by military activity and the operation of war industries.

The Southeastern Institute for Commercial Organization Executives and workers was held at Emory University during the week of June 20th to June 26th. Presidents, secretaries and others engaged in Chamber of Commerce work attended classes and lectures which were designed to aid in an understanding of the work and operation of Chambers of Commerce in southeastern cities. There were approximately 100 enrolled. Arrangements were under direction of Mr. L. P. Dickie, the southeastern manager of the United States Chamber of Commerce. The president of the Institute was Mr. August Burghard, president of the Chamber of Commerce of Fort Lauderdale, Florida. This institute was patterned after the National Institute held at Northwestern University each year, but designed to deal to a greater degree with regional problems. Similar regional Chamber of Commerce schools are held each year at Dallas, Texas, at the University of Montana, and on the Pacific Coast.

*Emory University* ALBERT GRIFFIN

KENTUCKY

Louisville is in the midst of a campaign to collect taxes on commercial revenue-producing property held by religious, educational and charitable institutions.

The property has been valued at approximately $3,183,000. The impending test in the courts of the question of tax liability will, no doubt, prove of interest.

The state itself has sued to collect income taxes on the royalties paid by the Ken-Rad Tube and Lamp Corporation of Owensboro, Kentucky, to Radio Corporation of America. The question of liability to taxation of royalties paid to persons or firms in another state has not previously arisen.

In March the Court of Appeals held that rural electric cooperatives were subject to ad valorem and franchise taxes. The lower court was sustained but the Revenue Department may file a cross-appeal from the lower court's ruling that the cooperatives are exempt from "profit taxes, gross and net taxes, sales taxes, occupational taxes, taxes on electric current consumed and all excise taxes." Of course, not all these taxes apply, but the state does levy a corporate income tax in addition to property and franchise taxes, and there is a consumption tax of three per cent on utility bills which is collected by the utility companies. In the opinion of this correspondent, failure to collect the latter would result in unfair discrimination among consumers because of differences in the method of obtaining their current, whereas the cooperatives might logically claim income tax exemption on the plea of being non-profit organizations. The 1937 General Assembly had imposed an annual tax of $10 on each cooperative, in lieu of all other taxes, and counsel for the cooperatives contended that the law was valid under the 1916 constitutional amendment permitting legislative classification of property for tax purposes.

The Court of Appeals has sustained a recent legislative act which, among other things, authorized the Department of Revenue to test persons seeking to qualify as county tax commissioner by means of examination questions which "shall be formulated so as to fairly test the ability of the applicant to serve as county tax commissioner." Another sustained provision empowered the Department of Revenue to order a reassessment of all the property or of any class of property in a county if the assessment was "not in substantial compliance with the law" *and* if "the interest of the public necessitates a reassessment." In both cases the court held that the standards prescribed by the legislature were sufficient—that there had been no delegation of legislative authority.

The Attorney General has brought suit to invalidate the proposed constitutional amendment limiting the salaries of state officials (governor excepted) to $5,000 annually. The lower court sustained his contention that the proposal was improperly worded and the Court of Appeals has disqualified itself as an interested party. A special court will undoubtedly render a decision before the ballots are printed for the November election.

Kentucky approaches the election of governor and other state officers with an increasing realization that in the sphere of economic activity everything depends upon everything else. Economists use the term "general equilibrium" to describe this situation. The state is having great difficulty in maintaining adequate personnel in the penal and eleemosynary institutions and the school teacher shortage is so grave that in spite of liberal issuance of temporary teaching certificates there is an imminent prospect that sixty thousand or more pupils

may be unable to attend school this autumn because of the shortage of teachers. The governor has been urged by some groups to call a special session of the legislature to appropriate additional funds for teacher salaries. However, it should be obvious that the solution is not so simple. One complicating factor is the heavy shift of population from rural and village areas to war production centers which upsets the contribution per pupil by the state. Another is the loss of men to the armed services and to war jobs that pay wages so high that no rise in the pay of teachers which the state is likely to be willing to assume will cause them to return.

Some of the candidates for governor are committed to the repeal of the state's income tax provisions.

*University of Kentucky* RODMAN SULLIVAN

### LOUISIANA

The regular annual meeting of the Commerce Section of the Louisiana College Conference was held March 13 on the Louisiana State University campus in Baton Rouge. This year the subject for discussion was "The Function of Commerce Departments in Wartime." Papers were presented covering the general role of commerce departments, the need for training personnel assistants for war industry, and the contribution of commerce teachers in facilitating the economic adjustments on the home front incident to total war.

Professor Leo M. Favrot, Jr., acting head of the department of economics and business administration at Southwestern Louisiana Institute, Mary McKinnon and George H. Zeiss, instructors in business administration at Louisiana State University, and Dr. Clarence E. Bonnett, professor of economics at Tulane University, presented the formal papers. Discussion of Professor Favrot's paper was led by Dr. E. A. Saliers of Louisiana State University.

Professor William J. Phillips of Southwestern Louisiana Institute was chairman of the Commerce Section of the Louisiana College Conference this past year. Officers elected at the meeting for next year's session were chairman, Dr. Howard M. Norton, associate professor and head of the department of secretarial science at Louisiana State University, vice-chairman, Mrs. Elizabeth Donovan, assistant professor of economics at Southwestern Louisiana Institute, and secretary, Mary McKinnon, instructor in business administration at Louisiana State University.

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The Bureau of Business Research of Louisiana State University published in May a bulletin on "The Economic Development of the Shreveport Trade Area" by Dr. Stephen A. Caldwell, professor of economics. This is the second study of Louisiana's industrial and commercial resources with special reference to the location of industry prepared by Dr. Caldwell, the first being "The New Orleans Trade Area" published in September, 1936, as a University Bulletin (Vol. XXVIII, No. 10).

The examination of the economic development of the Shreveport Trade Area

undertaken in the current bulletin is divided into two parts—the economic history of the area, and its industrial outlook. French and Spanish mercantilism, the great raft in the Red River, and the Indian pattern of life were dominant factors in the early development of the area. Then came the pioneer settlers, the removal of the raft, and the construction of railroads through Shreveport. Competing cities sprang up in east Texas, but Shreveport trade, though confined to a smaller territory, has continued to increase in several non-territorial directions associated with agriculture, industries of the forest, manufacturing, mining, transportation, building trades, and administration.

In the second portion of the bulletin Dr. Caldwell points out that the continued prosperity of Shreveport must rest upon the fundamental bases of soil fertility, forests, power and mineral resources, marketing facilities, human resources, and the capital necessary for steady development. Each of these bases is analyzed in sufficient detail to indicate that the area has land or material resources in abundance and enough capital to justify an extensive expansion of industry, but that it lacks skilled labor and entrepreneurs in proportion to the other factors of production. Suggestions as to how these deficiencies can be overcome are advanced in the concluding section of the study.

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At the end of the first nine months of the current fiscal year, state finances were in a somewhat better condition than was anticipated several months ago. Then there were uncertainties as to the effect of rationing upon gasoline tax collections, the effect of higher federal income tax rates on state income tax revenues, the yield of the new War Emergency Sales Tax, and the impact of the war upon most of the other important sources of state income. On the basis of more recent collection experience some estimates of tax yields have been revised upwards.

During the first three quarters of the fiscal year (July, 1942–March, 1943) state tax collections totaled $54,805,326, an increase of 4 per cent over the $52,748,636 collected in the corresponding months of the previous fiscal period. The gasoline tax from July, 1942 to March, 1943 amounted to $13,085,719 out of a total yield of $16,000,000 originally estimated for the entire year. It now appears that the gasoline tax collections will actually exceed this figure, since gasoline rationing was not inaugurated until December 1, five months after the start of the fiscal year. Nevertheless, the decrease in this source of revenue from last year's total of $20,982,622.70 will probably be more than 20 per cent.

Up to the end of March severance taxes totaled $10,304,290, as compared with $10,592,031 during the same period of the 1941–1942 fiscal year. Expectations for the final quarter of the present fiscal year point to a yield of $13,865,000, a drop of $339,973 or 2 per cent from the 1941–1942 total. The decline is almost wholly accounted for by the decrease in crude oil production. The peak production of crude oil in Louisiana occurred in January, 1942, with a daily allowable of 362,000 barrels. Allowables were gradually reduced to 302,000 barrels in May, 1942, and subsequently increased to 348,000 in March, 1943.

The full effect of the recently increased production, however, will not be reflected in severance tax collections until the first quarter of the fiscal year 1943–44.

In the first nine months of the current fiscal year, state income tax collections have amounted to $4,451,008, an increase of 22 per cent over the same months of the previous fiscal period. The current estimate for the entire twelve months, however, is $6,800,000, as compared with $7,714,249 actually collected in 1941–42, a decrease of 12 per cent. The principal reason for the expected decline is the increase in federal income taxes, which are deductible from income in the computation of the taxpayer's liability under the Louisiana income tax law. The importance of this factor can be judged from the fact that federal income tax collections in Louisiana amounted to $70,442,702 for the July, 1942–March, 1943 period, as against a nine month's total of $44,330,985 last year. First payments of the state tax on 1942 incomes were due May 15.

Taxes on alcoholic beverages, beer, and soft drinks yielded $5,513,294 in the first three quarters of the current fiscal year, a gain of 10 per cent over the corresponding 1941–42 period. The tobacco tax likewise totaled more than $5,000,000 and exceeded last year's figures by approximately 10 per cent. Almost no change is expected this year in the $16,000,000 regularly paid in for licenses, fees, and miscellaneous taxes.

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The State Department of Public Works has recently issued a revision of its original handbook for parish planning. Experience with the original handbook in the field disclosed the need for the elaboration of some parts of the survey outline and more detailed suggestions for the development of local materials. It is felt that the present handbook will be a better guide for new parish planning boards when they undertake the initial surveys of their resources and industrial opportunities in the war and post-war periods.

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Business activity in Louisiana moved to new heights in the first quarter of 1943. The composite index of business activity prepared by the Bureau of Business Research of Louisiana State University shot up sharply in January, rose still more in February, and levelled off in March. The unprecedented boom in retail selling during the first two months of the year were conspicuous factors in the January-February advance. Indeed there was widespread evidence of scare or panic buying in February, when Baton Rouge department stores reported a 39 per cent gain over January and more than twice as much business as in February, 1942. When the wave of buying subsided somewhat in March, the general index was held up by the sudden increase in bank debits and the steady rise in industrial payrolls. During the past twelve months the Louisiana activity index has doubled the advance recorded by the major indicators of national business activity.

Only a few business series showed declines for the first quarter of 1943 as compared with the first three months of 1942, and in every case the war was an important factor in the decline. The value of building permits and building con-

tract awards over the entire state were respectively 71 per cent and 75 per cent below last year's totals. Building material sales and urban mortgage loans were off 16 per cent and 15 per cent respectively. Wholesale hardware and retail furniture sales were 25 per cent and 13 per cent behind the 1942 figures up to the end of March. Life insurance sales lagged 28 per cent during the first three months of this year.

Prominent among the first quarter gains were the increases of 58 per cent in wholesale dry goods sales, 43 per cent in wholesale drug sales, and 33 per cent in wholesale grocery sales. Bank deposits and postal receipts thus far in 1943 were respectively 37 per cent and 31 per cent ahead of their corresponding 1942 totals. The prevailing situation in the labor market is disclosed in the 74 per cent drop in the value of unemployment benefit checks released through the State Department of Labor during the first three months of 1943.

Comparison of Louisiana business in particular lines with comparable national series for the first quarter of 1943 are interesting. State department store sales were 22 per cent ahead of their 1942 totals up to the first of April, as against a flat 10 per cent increase for the nation. Louisiana freight carloadings in the same period shot up 24 per cent; national loads rose only 3 per cent. Electric power production, however, was up 15 per cent for the entire country, while Louisiana production increased only 13 per cent. The rise in bank deposits and the fall in life insurance sales were almost identical for the state and the nation.

*Louisiana State University* — ROBERT W. FRENCH

## MISSISSIPPI

The Northeast Mississippi Council is a non-profit, non-political civic organization composed of business men, professional men and farmers for the purpose of increasing the income of the people in its section of the State.

After the organization first came into existence about two years ago, a rather extensive survey was conducted in order to determine the best opportunity for the Council's efforts. It was found that the various divisions of the chicken business were woefully weak, the state ranking second lowest in the entire nation in the grade of chickens produced and third lowest in the grade of eggs produced. Prior to the organization of the Council, all of the profits for dressing processes went to out-of-state organizations, and practically the entire supply of hatching eggs was imported.

The Council has taken as its first program the work of improving the number and quality of the chickens and eggs produced in the Northeast section. There are now about six hundred farmers in the program and about one thousand more are entering. The Council sees that these farmers are furnished with brooders, feed and baby chicks at cost or at greatly reduced prices. The growers are financed by themselves, by banks, by Production Credit or in some instances by the Federal Farm Security Administration.

At the present time the Northeast Mississippi Council can point with pride to the fact that its efforts have increased many farm incomes, that three dressing

plants have been established within its area, and that for the first time in history it will be unnecessary to import hatching eggs.

*University of Mississippi* FRANCIS S. SCOTT

NORTH CAROLINA

Although economic activity in North Carolina continues at an all-time high, the impact of a war economy is being felt in some areas, and the indications are that more soft spots are in the making. Department store sales held up well during January and February but broke sharply in March by about 23 per cent. Dollar volume, however, was about 10 per cent above that of 1942. Retail furniture sales were off about 3 per cent for the quarter as compared with 1942. The seasonally adjusted index of wholesale trade in 5 major lines improved in January and February but dropped approximately 6 per cent in March. The value of building contracts adjusted index declined 24 per cent during March and was 54 per cent below that of 1942. Agricultural and business loans usually rise during this period but this year they decreased materially. Bank debits to individual accounts in the 9 largest cities increased during the first 3 months in all except Raleigh which decreased about 25 per cent.

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North Carolina is very fortunate in having most of its industrial production in articles which are in line with the war production program. As a result activity has continued and has increased with few dislocations and conversions necessary. Tobacco manufacturing, especially cigarettes, continues to increase. March production of cigarettes was over 20.6 million. The first quarter of 1943 was 10 per cent above the same period of 1942 with a total of 58.7 million. The shipbuilding yards of Wilmington and other points are producing at full capacity, limited only by materials and manpower. The furniture industry, which had some dislocations in the earlier phase of the war-production program has benefited by the sub-contracting procedure and is making airplane parts. The textile industry has been running at full capacity and although some conversions were necessary they were made promptly in most cases. The new emphasis on civilian needs together with a high priority rating of textiles should benefit even those mills which have had conversion problems. Rayon shipments increased during all three months of the first quarter of 1943. The army's acceptance of rayon in automobile tires should warrant optimism for a permanent market in this and other uses of rayon. Nylon as a substitute for silk presages a new field of economic development in which North Carolina should share. Cotton consumption was 723,965 bales for the first quarter of 1943, an increase of 12,451 bales over the same period of 1942.

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Looking backward the agricultural picture is very bright. Cash farm income for 1942 was 52.8 per cent above 1941 income, reaching a total of approximately 440 million dollars. This increase was contributed by the following crops in their respective order: Tobacco, cotton, feed crops, peanuts, and truck crops.

The January (latest figures available) cash income was $27,740,000 or an increase of 25.7 per cent over January 1941. Looking forward to 1943, however, we do not have so favorable a prospect. Several conditions have developed which may cause undesirable results. A heavy polar air mass moved down unseasonably from the northwest bringing with it cold wind and rain and late frosts which have probably seriously damaged early truck crops, fruits and tobacco, and have reduced the growing season by 2 or 3 weeks. The shortage of nitrogen for fertilizer, confusion of farmers as to government policy, labor conditions, shortage of farm equipment, and increasing costs, together with crop-price policy, may result in failure to reach agricultural quotas and expectations. On the brighter side, however, Mr. McNutt and Governor Broughton have indicated that labor will be provided somehow for harvesting crops, and the War Production Board has ordered an increase in the production of farm equipment, some of which may be available for harvesting. A state-wide program for salvaging old equipment and for the repair and maintenance of existing equipment, along with liberal gasoline allowances and deferment, may relieve the situation sufficiently to permit quota production. The determination on the part of the Farm Bloc in Congress to keep farm prices in line with costs has also given the farmer some confidence. There are several bright spots in the agricultural picture. Poultry, eggs, milk, and stock production are improving greatly. The State Department of Agriculture, farmers' associations, the State Grange and Farm Bureau are cooperating to improve the grading and marketing of farm crops. In anticipation of the probable shortage of containers, a dehydrating plant is being experimented with at Mt. Airy and if it proves successful, others will be built. The possible locations have already been surveyed. Also steps are being taken to rehabilitate the sheep industry of North Carolina. The State Department of Agriculture has ordered 500 ewes for May 1 delivery.

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North Carolina started the year of 1943 with a total of 761,000 non-agricultural workers, of which 385,000 were engaged in manufacturing. This represented a total increase of 41,000 workers of which 16,000 were in manufacturing. Most of the latter is accounted for by the expansion of shipbuilding. Two trends are worth special mention. The first is the increase in women workers and the other, the increase in child labor. Regarding child labor, while there was a slight decrease in January (2,809) from December 1942 (4,510), and in February (2,798), March showed a substantial increase (3,610). Of these (9,217) 2,554 were girls and 6,663 were boys. There was very little change in employment and payrolls during the first quarter of 1943. If there was any change in employment, it was a slight decrease, while average weekly earnings increased 51 cents, from $22.80 to $23.31. The State Department of Labor in enforcing the Wages and Hours Law, made 633 inspections, found 329 firms violating the law, and caused $49,970 in restitution payments of back wages to be paid to 1,307 employees. The United States Department of Labor has ruled that the textile, hosiery, and some wearing apparel manufacturers can increase the number

of learners employed. Seven North Carolina firms have received the Army and Navy "E" award for production efficiency. Stabilization clinics are being held in cities over the state to explain and present data regarding the wage and salary stabilization program under the war economy. An industry committee has been appointed for the miscellaneous textile, leather, fur, straw and related products to make recommendations under the Fair Labor Standards Act.

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The State of North Carolina operates on a fiscal year from July 1 to June 30. Public revenues collected to date are summarized below. The collections by the Revenue Division during the first quarter were $34,871,135 and by the Gasoline Division $4,792,266 equaling $39,663,401 and bringing the total for the first 9 months to $75,794,151. This is a net increase of 5.26 per cent over the corresponding period of the last fiscal year. This is made up of an increase of 24.07 per cent for the Revenue Division and a decrease of 30.97 per cent for the Gasoline Division. The Division of Motor Vehicles, which is independent of the General Revenue Divisions, collected $5,755,555 during the first 3 months of 1943 bringing the total for the first 9 months of the fiscal year to $9,480,460, only a very slight increase.

*North Carolina State College* T. W. WOOD

## PERSONNEL NOTES

S. W. Atkins, associate agricultural economist and representative of the Soil Conservation Service, has been transferred temporarily to the University of Tennessee where he will act as agent for the United States Department of Agriculture in work on production goals.

Major Daniel Borth, on military leave as professor of business administration and auditor of Louisiana State University, has been raised to the rank of Lieutenant Colonel in the Quartermaster Corps.

Frederick H. Bunting, associate professor of economics at the Woman's College of the University of North Carolina, has been commissioned Lieutenant (j.g.) in the Navy and assigned to the Price Analysis Staff in Washington, D. C.

Lyle E. Campbell, professor of accounting in the Emory University School of Business Administration, is on leave of absence in the accounting department of the Atlanta Regional office of the Office of Price Administration.

Cecil C. Carpenter has been granted a leave of absence from the University of Kentucky to act as price specialist for the Lexington office of the Office of Price Administration.

Mrs. Elizabeth Donovan, assistant professor of economics at Southwestern Louisiana Institute, has been granted a leave of absence to continue her doctoral studies at the University of North Carolina.

Herman A. Ellis has been granted leave from the University of Georgia to become a teaching assistant at the Naval Training School at Indiana University.

Leo M. Favrot, Jr., professor of accounting and acting head of the department of economics and business administration at Southwestern Louisiana Institute, has been granted a leave of absence to accept a position with the United States Civil Service Commission as principal accountant for the United States Navy, Eighth District Cost Inspection Office, New Orleans.

Lieutenant F. H. Fisher, U. S. N. R., assistant professor of economics at Loyola University of the South in New Orleans, has been called into service and is stationed at Ohio State University.

Seymour J. Harris, instructor in accounting at Tulane University, has resigned his position to enter the armed forces.

Huber C. Hurst, associate professor of business law at the University of Florida, has been granted a leave of absence for service as Captain in the Service of Supply, ASTP, at Washington, D. C.

Clifton H. Kreps, Jr., has resigned as instructor in economics and commerce in the University of North Carolina to accept a position as assistant economist with the National War Labor Board in Atlanta.

Mrs. Wyan Locke has been appointed instructor in business administration at Southeastern Louisiana College.

Walter J. Matherly, Dean of the College of Business Administration of the University of Florida, has recently been appointed a public member, part time, of the Regional War Labor Board, district 4, with headquarters in Atlanta. Dean Matherly is also serving as a director representing the public on the board of directors of the Jacksonville branch of the Federal Reserve Bank of Atlanta.

John B. McFerrin, associate professor of economics at the University of Florida on leave of absence, was with the OPA in Jacksonville, Florida for some time, but now has been commissioned as a Lieutenant (j.g.) in the United States Naval Reserve.

Mary McKinnon, instructor in business administration at Louisiana State University, has been elected secretary of the commerce section of the Louisiana College Conference.

Frank L. McVey, member of the American Economic Association since 1895, president of the University of Kentucky 1917–1941, is in Venezuela as adviser to the government in the organization of a national university to be located near Caracas.

Paul L. Muilenburg, assistant professor of economics at Tulane University, is now on leave of absence, having been commissioned Lieutenant (j.g.) in the Navy.

Howard M. Norton, associate professor and head of the department of secretarial science at Louisiana State University, has been elected chairman of the commerce section of the Louisiana College Conference.

L. M. O'Quinn, assistant professor of economics at Louisiana Polytechnic Institute, has been granted a leave of absence for further study at the University of Texas.

Wilbur Perkins has resigned his position as instructor in secretarial science at the Northeast Junior College of Louisiana State University to accept a position in the Dallas office of the United States Department of Labor.

Alvin B. Potts, instructor in secretarial science at the Northeast Junior College of Louisiana State University, has been inducted into the United States Army.

Pauline Rawlings of Indiana University has been appointed instructor in secretarial science at the Northeast Junior College of Louisiana State University.

J. Walton Reeves, associate professor of business administration at Southeastern Louisiana College, has been serving as head of the department during the past year in the absence on leave of R. Norval Garrett, who has been studying at Indiana University.

Milton A. Reilly, formerly an instructor at Watkins Institute in Nashville, has been appointed instructor in economics in the college of commerce of Louisiana State University.

Major Karl D. Reyer, on military leave as professor of business administration at Louisiana State University, has been raised to the rank of Lieutenant-Colonel in the Ordnance Department of the United States Army.

Anna May Schmidt, assistant professor of economics at Southeastern Louisiana College, has been inducted into the United States Marine Corps Reserve.

R. T. Segrest, associate professor in the College of Business Administration in the University of Georgia, is now an economist in the Atlanta Regional Office of the War Labor Board.

Victor B. Sullam, assistant in agricultural economics in North Carolina State College, has resigned to accept a position with the Department of Foreign Agricultural Relations, United States Department of Agriculture.

Wendell P. Trumbell, assistant professor of accounting, now on military leave from the University of Mississippi, has been commissioned as a 2nd Lieutenant in the Signal Corps of the United States Army.

Mrs. Mary B. Turner, formerly an instructor in the Ouachita Parish (Louisiana) High School, has been appointed instructor in secretarial science at the Northeast Junior College of Louisiana State University.

Paul D. Zook, instructor in economics at Louisiana State University has resigned to accept a position with the Bureau of Foreign and Domestic Commerce in Washington, D. C.

# BOOKS RECEIVED

*Development of Collective Enterprise.* By Seba Eldridge and Associates. Lawrence, Kans.: University of Kansas Press, 1943. Pp. viii, 577. $4.50.

*Economic Freedom.* By Charles E. Noyes. New York: Harper, 1943. Pp. xv, 234. $2.50.

*Economics and Problems of Labor.* By Philip Taft. Harrisburg, Pa.: Stackpole Bros., 1942. Pp. xx, 994. $4.00.

*The Economics of America at War.* By Seymour E. Harris. New York: W. W. Norton and Company, 1941, 1943. Pp. 418. $3.75.

*Effect of Inventory Methods on Calculation of Profits and Income Taxes.* By Charles J. Gaa. Urbana, Ill.: (Bureau of Economic and Business Research Bulletin, Series No. 63) University of Illinois, 1943. Pp. 66.

*The Federal Power Commission and State Utility Regulation.* By Robert D. Baum. Washington: American Council on Public Affairs, 1943. Pp. xi, 288. $3.75. ($3.00 paper).

*Freedom from Want: A World Goal.* By Elizabeth E. Hoyt. New York: Public Affairs Committee, Inc., 1943. Pp. 31. $.10.

*Income Size Distributions in the United States.* By The Conference on Research in Income and Wealth. (Milton Friedman, Chairman.) New York: National Bureau of Economic Research, 1943. Vol. I, pp. xxvi, 131. $1.00. Vol. II, pp. xxvii, 904.

*Interest and Usury.* By Bernard W. Dempsey. Washington: American Council on Public Affairs, 1943. Pp. xii, 233. $3.50 (cloth), $3.00 (paper).

*International Trade and the National Income Multiplier.* By Fritz Machlup. Philadelphia: The Blakiston Company, 1943. Pp. xvi, 237. $3.50.

*Jewish Migrations: Past Experiences and Post-War Prospects.* By Eugene M. Kulischer. New York: The American Jewish Committee, 1943. Pp. 51. $.20.

*Labor's Voice in the Cabinet.* By John Lombardi. New York: Columbia University Press, 1942. Pp. 370. $4.00.

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